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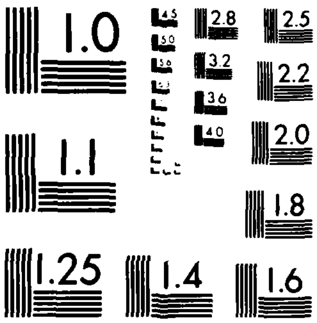

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AN ECONOMIC ANALYSIS OF UNITED STATES ASSISTANCE TO SELECTED LESS DEVELOPED COUNTRIES

12

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ABSTRACT

In this paper, we review and evaluate certain United States military and economic assistance programs for Less Developed Countries (LDCs). We begin by outlining the Congressional mandate for current U.S. foreign assistance programs. Using conventional indifference curve analysis, we demonstrate that military loans at U.S. Government cost-of-money interest rates must be balanced with grants or economic assistance to achieve stated U.S. foreign policy objectives. In appendices, we present economic forecasts and analyses for 19 selected LDCs. We conclude the main paper by commenting on the policy implications of our review and evaluation.

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AN ECONOMIC ANALYSIS OF UNITED STATES ASSISTANCE TO SELECTED LESS DEVELOPED COUNTRIES

by
William J. Weida and Frank L. Gertcher

I. INTRODUCTION

Statement of The Problem

The United States Government provides enormous amounts of assistance to foreign countries in the form of loans and grants. In Fiscal Year 1982, military assistance obligations totaled $4.195 billion, including $3.084 billion in loans and $1.111 billion in grants. Economic assistance totaled $8.129 billion, with $1.454 billion in loans, and $6.675 billion in grants. Additional U.S. assistance obligations not included in the military or economic categories have grown significantly since Fiscal Year 1980.[1]

In light of this enormous and growing expenditure of U.S. Government funds, it is striking how little is known about the overall economic impact of concurrent security and economic assistance programs on Less Developed Countries (LDCs). The purpose of this paper is to provide a theoretical framework for assessment and, within this framework, to provide an empirical assessment of the impact of U.S. assistance on 19 LDCs that are of particular interest to the United States.

Overview

We begin by outlining the Congressional mandate for current U.S. foreign assistance programs. Using conventional indifference curve analysis, we demonstrate that military loans at U.S.

Government cost-of-money interest rates must be balanced with grants or economic assistance to achieve stated U.S. foreign policy objectives.[2]

In appendices, we continue the discussion of loans versus grants by analyzing the current and forecast debt service burdens for 19 selected countries.[3] For each country, we also show the percent of total debt service due to U.S. economic and military assistance loans. Debt service trends were used as inputs to Chase Econometrics and Wharton models for eight countries. We present the results of these models which consist of GDP, debt service, and balance of payments forecasts for each country for the period 1983-1988. Models were not available for the remaining 11 countries. However, informal forecasts of GDP, debt service, and balance of payments were made for these countries based on available data. We conclude our paper by commenting on the policy implications of our analysis.

II. THE CONGRESSIONAL MANDATE

Statutory Basis for Assistance

Much of the statutory basis for current U.S. economic and military assistance was provided by the Foreign Assistance Act of 1961 and subsequent appropriations acts for Fiscal Years 1962 through 1983. The Statement of Policy (section 102) of the 1961 Act reads, in part, as follows:

It is the sense of the Congress that peace depends on wider recognition of the dignity and independence of men, and the survival of free institutions in the United States can best be assured in a world atmosphere of freedom.

To this end, the United States has in the past provided assistance to help strengthen the forces of freedom by aiding peoples of less developed friendly countries of the world to develop their resources and improve their living standards.

It is the current policy of the United States to strengthen friendly foreign countries by encouraging the development of their free economic institutions and productive flow of private investment capital.

Also, the Congress reaffirms its conviction that the peace of the world and the security of the United States are endangered so long as international Communism continues to attempt to bring under Communist domination peoples now free and independent and to keep under domination peoples once free but now subject to such domination. It is, therefore, the policy of the United States to continue to make available to other free countries and peoples, upon request, assistance of such nature and in such amounts as the United States deems advisable and as may be effectively used by free countries and peoples to help them maintain their freedom.

Based upon the Congressional mandate, the Agency for International Development (AID), the Department of Defense (DOD), and other U.S. assistance agencies have developed certain criteria which assess whether assistance should be provided to a particular country and, if so, what form it should take. These criteria provide a strong case that U.S. foreign assistance is intended to serve U.S. economic, defense, and to some degree, humanitarian interests.

Economic Assistance

For particular projects, we can summarize the criteria for economic assistance as follows:

(1) Agreements must be made which will ensure that the assistance provided will not be used in a manner contrary to the best interests of the U.S.

(2) Assistance will not normally be provided to countries that have Communist governments.

(3) The country's government must have appropriate diplomatic relations with the U.S.

(4) As a general rule, assistance will not be provided to governments that have nationalized or expropriated the property of U.S. citizens.

(5) Countries receiving U.S. assistance must take steps to protect U.S. citizens and property from civil strife.

(6) It is desirable for U.S. assistance to encourage private trade with the U.S.

(7) If a commodity will be produced as a result of the assistance, an assessment must be made to determine whether there will be a surplus of the commodity on world markets at the time the project begins to produce. Assistance will not be provided if this addition to world productive capacity will cause substantial injury to U.S. producers.

(8) Adequate consideration will be given to the environmental impact of the project.

(9) It is desirable for the assistance provided to promote the growth of the country's macroeconomy.

(10) The assistance provided will not finance United States C.I.A. activities.

(11) Adequate consideration will be given to whether the country has the ability to utilize and maintain the project after the assistance terminates.

(12) The U.S. Department of State will determine whether the country's government has engaged in a consistent pattern of human rights violations. If so, it must be demonstrated that the contemplated assistance will directly benefit the needy.

(13) If the country's government has engaged in a consistent pattern of human rights violations, the government must show significant improvements in its human rights record before assistance will be provided.

(14) Assistance will not be provided to governments that object, on the basis of race, religion, national origin, or sex, to the presence of any U.S. officer or employee in the country to carry out the intended assistance.

(15) Arrangements must be made which will ensure that the assistance provided will not finance abortion as a method of family planning.

(16) Arrangements must be made to ensure that the assistance provided will not finance prisons, police, or other law enforcement activities except for the control of narcotics.

(17) The country's government must take adequate steps to prevent narcotics or other controlled substances from being produced, sold or transported to the U.S.

(18) Arrangements must be made which will preclude the use of economic assistance funds for paramilitary activities.

(19) Assistance will not be provided to governments that in any way aid or abet international terrorism.

(20) The government's record for honoring its debts to the U.S., to other countries, and to international lending organizations must be assessed. The country must provide to appropriate U.S. agencies an adequate accounting of disbursed funds.

(21) If the assistance is a loan, U.S. officials must consider the impact of debt service on the country's foreign exchange levels and other resources.

(22) The recipient country must contribute, to the maximum extent possible, its own funds and resources to the project.

(23) Prior to obligation of U.S. funds for a project, reasonably firm estimates must be made of the costs for any U.S. Government engineering, financial, or other services.

(24) U.S. officials will determine if the country, after August 3, 1977, received or delivered any nuclear materials, equipment, or technology without specified U.S. safeguards, whether it has transferred any nuclear explosive device to a non-nuclear state, and whether the project being considered is consistent with non-proliferation objectives.[4]

U.S. Government decisions with regard to economic assistance are made as a result of compromises between certain government agencies. Under the direction of the President, the Department of State and the DOD play major roles in the decision process: the Department of State for political and diplomatic reasons, and the DOD because the economic stability of a particular country may have strong U.S. defense implications.

The criteria for U.S. economic assistance are also consistent with the economic interests of certain U.S. business firms, particularly the multinationals. U.S. firms want expanding world markets for their goods, an ever-increasing supply of imported raw materials, and in many cases, a source of relatively cheaper labor. These requirements depend in a large part upon the sustained economic development of certain LDCs.

The evidence suggests the private U.S. business firms provide little in the way of lobbying for particular economic assistance projects. However, former executives of U.S.-based multinationals have, in the past, played an important role in determining overall U.S. economic assistance policies for particular countries. In certain cases, prominent individuals have alternately held executive positions in the multinationals and policy positions in government. These individuals found it in their best profit maximizing interest to ensure political and economic stability in certain LDCs where their former firms had substantial investments in raw material development, markets for finished products, or labor intensive factories. For example, there is strong evidence to suggest that certain such individuals strongly influenced U.S. assistance policies to promote stability in Brazil in the 1960s and to force the overthrow of Allende's socialist government in Chile in the 1970s.[5]

Security Assistance

On the military side the Foreign Assistance Act of 1961 also gives the President authority to determine which countries should receive U.S. military assistance and under what terms this assistance should be provided:

"The President is authorized to furnish military assistance, on such terms and conditions as he may determine, to any friendly country or international organization, the assisting of which the President finds will strengthen the security of the United States and promote world peace."[6]

There are many considerations that are taken into account when deciding whether to enter into a defense relationship with a particular country.[7] Each case is unique and handled as such. However, U.S. Government decision makers use some fairly consistent guidelines which assess:

(1) The role the country plays in its geographical region, what interests it has in common with the U.S., and where our interests diverge.

(2) Whether the provision of weapons furthers U.S. objectives more on balance than other economic and political measures.

(3) The position of U.S. influence that weapons might help support, including the potential restraint that can be applied to conflict situations.

(4) Whether a particular provision of weapons would set a precedent which could lead to further requests by the given nation or similar requests from other nations.

(5) The current internal stability of the recipient nation, its capacity to maintain that stability, and its attitude toward human rights.

(6) The disadvantages of not assisting a government with which we enjoy good relationships.

(7) The options available to the recipient country if the U.S. refuses to provide weapons.

(8) The threat the military capability is supposed to counter or deter and how it relates to our own security.

(9) How the proposed transfer affects the regional military balance, regional military tensions, or the military build-up of other countries.

(10) Whether the recipient country has the capability to absorb and utilize the arms effectively.

(11) What other military interests--for example, overflight rights or access to facilities--would be supported by the sale.

(12) The impact of the weapons transfer on the readiness posture of our own forces.

(13) Whether a substantial physical dependence on U.S. sources of supply could enable us to better control conflict, should it occur.

(14) Finally, except in special circumstances, U.S. policy prohibits the transfer of certain sensitive items such as hand-transportable surface-to-air missiles and weapons which are primarily designed for use against crowds.[8]

According to law and stated policy, U.S. military weapons are provided, either directly by the U.S. Government or by U.S. Government export licensing of U.S. defense firms, only after careful consideration has been given to all of the above criteria. It is important to note that U.S. domestic economic considerations, such as corporate profits, domestic employment in defense industries, weapons production efficiency, and the maintenance of defense industry surge capacity are not mentioned.[9]

The Congress provides the statutory authority for all forms of security assistance, including weapons, in annual security assistance legislation. Foreign Military Sales (FMS) may be

transacted on a cash basis, or may be financed with U.S. credits provided and guaranteed by security assistance appropriations. In credit transactions, the purchasing government reimburses the United States in full, with interest. The sole exception has been the "forgiveness" portion of FMS credits, which require no repayment, and has been authorized only for Israel, Egypt and the Sudan. In contrast to economic assistance loans, FMS loans are provided at U.S. Government cost-of-money interest rates, and are not concessional.

Under the direction of the President, the Secretary of State is responsible for determining whether there should be a military assistance or a foreign military sales program for a particular nation, the size of that program, and its content. The Secretary of Defense is responsible for the determination of military end-item requirements, procurement of military equipment in a manner which permits its integration with U.S. service programs, supervision of end-item use by the recipient countries, supervision of the training of foreign military personnel, movement and delivery of end-items, and the establishment of priorities in the procurement, delivery and allocation of military equipment.[10]

The Department of Defense administers the following security assistance programs:

(1) Military Assistance Program (MAP): MAP provides defense equipment and services other than training to foreign governments on a grant basis. MAP is more than thirty years old. Initially, it was scheduled to be phased out at the end of Fiscal Year 1981 by the Reagan Administration, but it has since experienced a resurgence. Although the Reagan Administration did not initially intend to have MAP grants for FY 1982 and beyond, MAP for FY 1982 included $68.2 million to cover continuing requirements.

(2) Foreign Military Sales (FMS): Since FY 1964, FMS has been the major portion of the U.S. security assistance effort. The FMS program enables the Department of Defense to sell defense equipment, services, and training to eligible foreign governments. At the end of Calendar Year 1980, some 99 countries and three international organizations were participating in this program. In FY 1980, FMS agreements totaled $15.3 billion and FMS deliveries equaled $7.7 billion. After an increase to $19.5 billion in 1982, total FMS is likely to stay around $1[illegible].5 billion annually over the period 1983-88.

(3) Direct Commercial Sales: The final major form of U.S. weapons exports consists of the direct sales of weapons and other equipment by private U.S. firms to purchasing foreign governments. Payments are arranged on a private contract basis. The Department of State, Office of Munitions Control, administers these sales under the authority of the Mutual Security Act of 1954.

The Office of Munitions Control also publishes the International Traffic in [illegible] Regulations. This [illegible] lists weapons and other [illegible] license. The [illegible] of State, in [illegible] with the Department of Defense, [illegible], establishes the procedure [illegible] direct sales, and in most cases, makes [illegible] to [illegible] an export license [illegible]

In contrast to economic assistance projects, decisions with regard to weapons exports are made as a result of compromises between certain U.S. Government departments. Different departments have different motivations, partly as a result of lobbying from other nations, from the military, and from the private sector. For example, the Department of State has often been motivated to satisfy requests for weapons from allied governments consistent with certain political criteria listed earlier. Within the Department of Defense, there have been conflicts between the "marketing group" (the Defense Security Assistance Agency) and various "control groups" that were concerned with the transfer of sophisticated weapons technology to foreign nations.[12] Recently, there has also been concern with regard to Department of Defense loan guarantees to facilitate foreign government financing of weapons purchases. Finally, the Department of Commerce has often been pressured by defense firms to encourage exports, including overseas weapons sales.[13]

In this interdepartmental arena, only the President has the legal power to resolve conflicting issues. Unfortunately, the existing framework simply does not permit practical involvement by the President in the assessment of the enormous volume of proposed weapons exports. As a result, a decision vacuum exists. Arbitrary decisions are made at lower levels, often in pursuit of short-term objectives. These objectives are often motivated by

U.S. *domestic* incentives which, according to law, are secondary to the statutory criteria previously discussed. These incentives include corporate profits, domestic employment in defense industries, weapon system production efficiency, and the maintenance of defense industry surge capacity. We will address each of these incentives, in turn.

Especially during the period 1975-80, major U.S. defense contractors placed increasing emphasis on the sale of military equipment to foreign nations. It is not at all difficult to see why this situation came about. The U.S. defense procurement budget dropped from 44 billion dollars in 1968 to a low of 17 billion in 1975 in constant dollars. For the top 25 U.S. defense contractors, U.S. defense sales fell over 23 percent during this period. From 1975 to 1978, the U.S. procurement budget continued to decline slowly in constant dollar terms. Only since 1978 have there been substantial increases. In the face of a shrinking domestic market during the seventies, defense contractors turned more and more to the lucrative export market.[14]

The "Profit 75" study found that foreign military sales were 2.5 times as profitable as domestic U.S. sales. In part due to the enormous profit incentive, U.S. orders for foreign military sales went from 1.5 billion per year in 1970 to 12 billion in 1975 and to over 19 billion in 1982. Even after accounting for inflation, this trend represents over a ten-fold increase.

During the period 1968 to 1976, the top 25 U.S. defense contractors experienced over a 46 percent increase in export sales. A smaller but still substantial increase occurred from 1976 to 1982.

From the industry side, industry executives have argued that foreign sales of U.S. made weapons permit reductions in the costs of weapons sold to the U.S. Government. They have also pointed out that foreign sales generate funds for reinvestment and create new jobs for U.S. workers.

The argument for production efficiency and lower per unit costs as a result of foreign weapon sales is substantiated by the evidence. Learning curve analysis, particularly in aircraft production, indicates that optimum production levels often exceed the levels necessary to support U.S. Government weapons purchases. By selling weapons to foreign buyers, lower per unit costs are often achieved, to the benefit of the U.S. Government and incidentally, the U.S. taxpayer. Further, higher levels of production ensure that, in case of a U.S. national emergency, productive capacity for foreign buyers could easily be diverted to supplying U.S. defense needs.

However, the types of skills used in defense production may or may not be held by those persons who are cyclically unemployed, depending on the stage of the defense investment cycle at

which the money is spent. Since the vast majority of persons employed in defense after initial investment spending are highly skilled, often with college degrees in the physical sciences, if they were *not* employed in defense, they would be employed in the production of civilian goods. Thus, some argue that defense production simply bids up the price of certain types of skilled labor and results in an opportunity cost of civilian goods foregone.

The Department of Defense has variously estimated that defense industries create between 35-60 thousand new jobs per 1 billion dollars spent. These jobs affect employment in a manner similar to alternative government job programs but may not create as many jobs as the private sector spending which has been foregone because of the taxes paid to the government.

While defense spending does indeed create jobs, unemployment among unskilled workers could probably be alleviated more efficiently by other government or non-government programs. Research conducted by the Department of Defense shows that defense spending employs approximately the same number of people as does non-defense spending. Thus, Defense spending only reflects a certain set of priorities, and the real argument is the one waged over the relative importance of alternate government endeavors.

III. THE ECONOMIC IMPACT OF U.S. SECURITY ASSISTANCE

A Theoretical Framework

To assess the impact of FMS upon a recipient nation, we utilize indifference curve analysis. Country A, a hypothetical LDC, has initially built a defense establishment using its own resources. Its current position can be represented by Figure 1, where an indifference curve shows country A´s current possible combination of defense and non-defense goods. The tangency of this curve with Country A´s budget line, B_1, indicates that it is optimizing consumption of these two goods by buying W_1 of defense goods and Q_1 of non-defense goods.

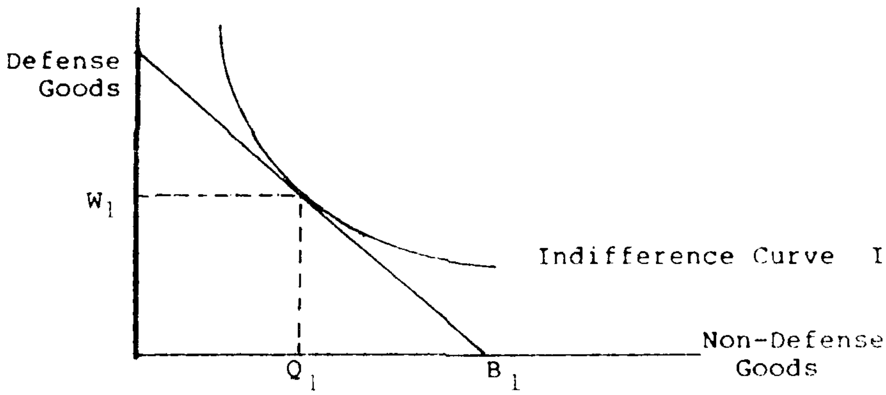

Figure 1. Country A´s Initial Position.

Now, the United States approaches Country A. The United States is willing to sell Country A arms, and since Country A does not have the resources to purchase these arms, the U.S. offers an FMS loan. In assessing its ability to pay back the

offered loan, Country A looks to its future. It assumes a particular Gross Domestic Product (GDP) growth which will allow its budget line to expand. Suppose it also desires that approximately the same percentage of its domestic budget should be spent on defense and non-defense goods in the future. Given these assumptions, Country A derives a forecast of its probable future which is depicted in Figure 2.

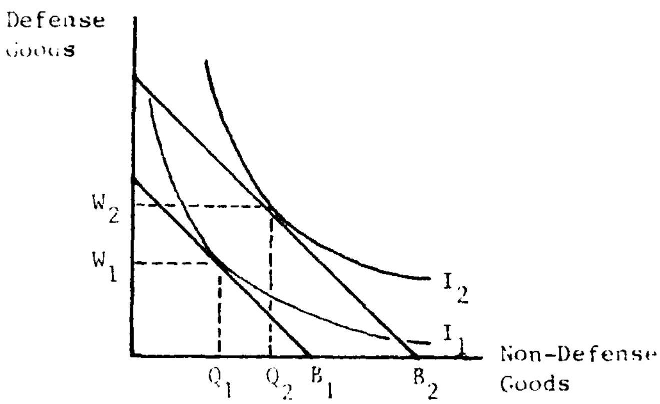

Figure 2. Country A's Planned Growth

Note that growth of Country A's economy has allowed the budget line to expand from B_1 to B_2. Note also that this allows Country A to operate on a better (higher) indifference curve (I_2 compared to I_1) which allows more non-defense goods ($Q_2 - Q_1$) and enough money to cover the FMS loan payment ($W_2 - W_1$). If Country A's economy develops as expected, our story should end at this point. Unfortunately, this has often not been the case.

During 1980-1987, the deteriorating world economic condition increased the economic plight of the LDCs. This occurred at a

time when the economies of LDCs were so delicately balanced that even small problems had grave repercussions. The basic problem which any LDC encounters after receiving a FMS loan at the current U.S. Government cost-of-money interest rate is that it has obligated itself to large payments of interest and principal over the next few years--and these payments must be made in a hard foreign currency which can only be gained through trade. Given this constant economic drain, the following problem areas may affect the LDCs ability to pay:

(1) The 25 Percent Rule: It is a U.S. Department of Defense rule of thumb that any LDC which purchases a modern weapon system can count on additional opportunity costs in the amount of roughly 25 percent of the purchase price. These additional costs are incurred as the infrastructure of the LDC tries to support the new system from its limited human and capital bases. For example, an engineer who would otherwise be building roads now must build runways, and skilled drivers must be used in new tanks instead of bulldozers.

(2) Lower World Growth: Reduced world growth affects the LDC in two ways. First, the growth rate of the LDC itself is likely to be less than planned. And second, trade with other countries which are also suffering a reduction in growth will be sharply curtailed. These factors will result in a shortage of hard foreign exchange currency, and bills for weapons may begin to override other uses for foreign exchange--such as paying for imports of non-defense goods and services.

(3) The Growth Rate of LDCs in General: Because most LDCs specialize in the export of raw materials and primary products to developed countries, they are at the mercy of economic fluctuations in these countries. Experience has shown that mild recessions in the developed countries become magnified in the LDCs, and that LDCs tend to lag behind the other countries of the world during economic recovery.

(4) Variable Interest Rates: Unfortunately, the very conditions which have contributed to poor economic performance in the LDCs have also led to high interest rates in world markets. Thus, the LDCs find themselves unable to afford cash purchases while at the same time they are faced with relatively high interest rates for new assistance loans. Because interest rates vary from day to day, an LDC has little idea of what interest rates it will actually pay for new loans when they are drawn in the future.[15]

(5) World Oil Prices and LDC Oil Exporters: LDC oil exporters are particularly vulnerable to fluctuations in world oil prices. For example, Venezuela is an oil exporter. By 1980, its government had borrowed extensively at market interest rates from major U.S. banks and other financial institutions. Repayment schedules were based upon expected revenues from its oil exports at a benchmark world oil price of 34 dollars per barrel of Saudi equivalent crude. However, high levels of world oil production, the world-wide recession, and energy conservation measures by the industrialized nations resulted in world oil prices of less than 30 per barrel in 1983, with prices expected to reach as low as 25-27 dollars per barrel in 1984. As a result, Venezuela is currently overextended with high external debt and unrealistic repayment schedules.

(6) World Oil Prices and LDC Oil Importers: From item 5, one might expect that a lower oil price would benefit LDC oil importers. It does--eventually. However, many LDC oil importers are committed to long-term contracts at higher oil prices compared to current world benchmark prices. Also, existing inventories of high-priced oil must be used up. Thus, LDC oil importers recover only slowly from high oil prices. Further, many LDCs borrowed [illegible] current account [illegible], thus increasing their external debt [illegible].

For all of these reasons, [illegible] of LDC growth have consistently erred on the high side [illegible] the past several years. We now investigate the [illegible] of error [illegible] regard to FMS loans.

Figure 3 shows the results of zero income growth on an FMS recipient. In the figure, the growth of the LDC is zero, but FMS loan payments must still be made. As a result, the budget (B_1) must be reallocated. This reallocation is shown as a shift along the budget line to (Q_3,W_2) where fewer non-defense goods may now be purchased.

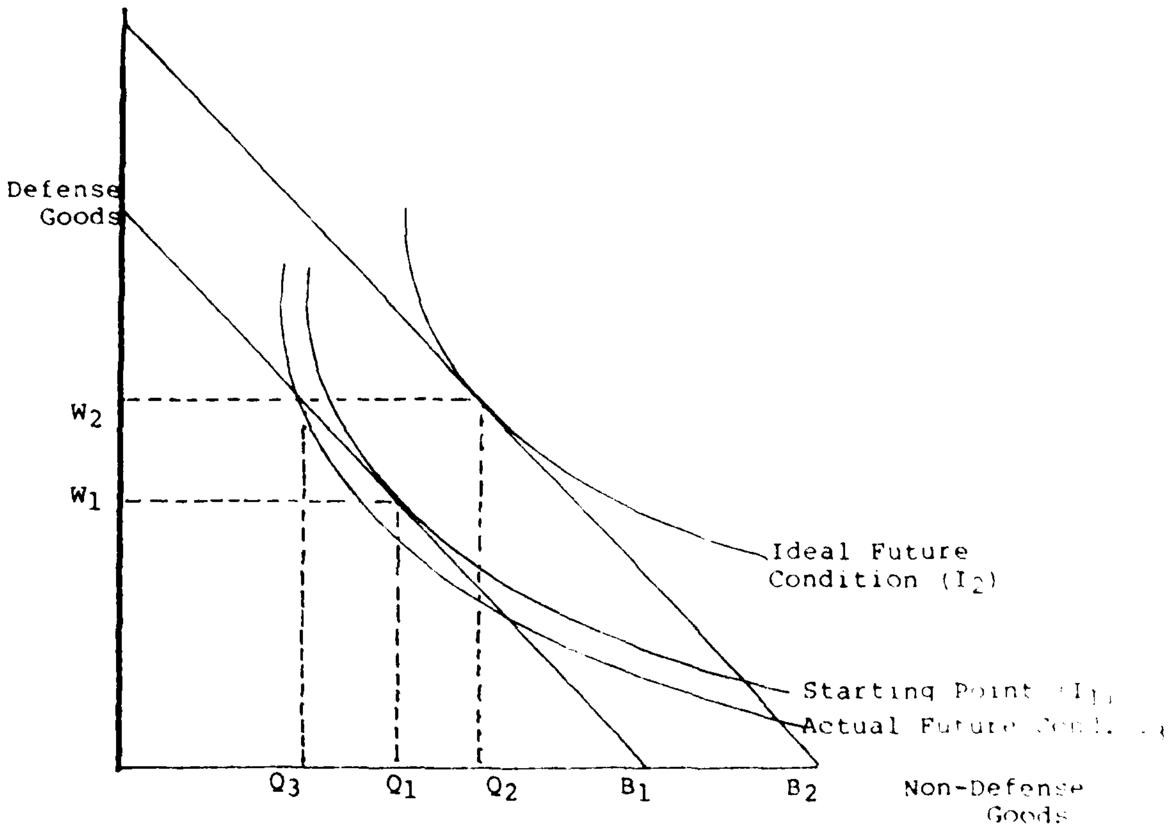

Figure 3. **COUNTRY A: FMS Recipient with Zero Budget Growth**

The result of lower-than-expected growth is a sacrifice of non-defense goods in order to support increased defense spending.

In Figure 3, Country A winds up operating at a less than optimal position on indifference curve I_3, and in so doing, it changes the mix of defense and non-defense goods to (Q_3, W_2). The result is a loss of non-defense goods in the amount of $Q_1 - Q_3$. As our subsequent empirical analysis will show, zero or negative economic growth was common for a number of LDCs during 1982.[16]

The loss of non-defense goods creates a paradox for Country A and for the U.S. The initial reason for U.S. interest in giving a FMS loan to Country A and the initial reason for Country A's interest in increased defense were consistent: to increase the stability of Country A's government and the security interests of the U.S. But the necessity of cutting back on non-defense goods to finance defense expenditures has created the opposite effect. Internal stability has been sacrificed as a result of a defense build up. As an example of this phenomenon, consider the case of Spain. This country, which has substantial economic problems, was recently granted FMS loans in the amount of $400 million per year for each of the next four years for signing a base access agreement with the United States. [illegible] for these loans will create a substantial burden on the Spanish economy during the decade of the 1980s. The United States is placed in a position of fostering an internally destabilizing situation in a country in which it is maintaining bases.

If this is the case, why does the United States use FMS loans as a major "assistance tool" for LDCs? The answer is almost solely a budgetary phenomenon. FMS loans are arranged through the Federal Financing Bank and, hence, are "off-budget." Although Congressional approval of FMS loans is required, and although the money for the loans will be taken from the U.S. capital markets, the amounts of the loans never appear in the budget of the United States. This means that government expenditures and deficits will appear to be less. Table 1 shows how all U.S. assistance money is spent. In this table, Military Assistance Loans, and in addition, Export-Import Bank Loans are "off-budget."

SUMMARY FOR ALL COUNTRIES @ (U.S. FISCAL YEARS - MILLIONS OF DOLLARS)

PROGRAM	POST-WAR RELIEF PERIOD 1946-48	MARSHALL PLAN PERIOD 1949-52	MUTUAL SECURITY ACT PERIOD 1953-61	FOREIGN ASSISTANCE ACT PERIOD 1962-78	1979	1980	1981	1982	TOTAL FAA PERIOD 1962-82	TOTAL LOANS AND GRANTS 1946-82	REPAY-MENTS AND INTEREST 1946-82	TOTAL LESS REPAYMENTS AND INTEREST 1946-82
										**		**
I ECON. ASSIST. TOTAL	12,482	18,634	24,053	75,441	7,120	7,572	7,305	8,129	105,566	157,019	26,115	130,904
LOANS	5,967	2,551	5,850	31,179	1,900	1,993	1,460	1,454	37,987	50,162	26,115	24,047
GRANTS	6,515	16,083	18,203	44,262	5,220	5,579	5,845	6,675	67,579	106,857	-	106,857
A AID AND PREDECESSOR	-	14,506	16,885	41,530	3,848	4,062	4,209	4,990	58,639	86,965	10,634	76,331
LOANS***	-	1,577	3,266	18,511	1,154	1,150	685	764	22,264	25,702	10,634	15,068
GRANTS	-	12,929	13,619	23,019	2,694	2,912	3,524	4,226	36,375	61,263	-	61,263
(SEC SUPP ASSIST)[a]		(348)	(8,853)	(15,278)	(1,982)	(2,183)	(2,199)	(2,912)	(24,555)	(32,727)		
B FOOD FOR PEACE		83	6,416	21,680	1,287	1,436	1,542	1,314	27,259	32,913	8,255	24,658
LOANS		-	2,526	11,610	746	843	774	690	14,664	16,357	8,255	8,102
GRANTS		83	3,890	10,070	541	593	768	624	12,595	16,556	-	16,556
TITLE I TOTAL[b]		-	3,867	14,012	746	843	774	690	17,066	20,099	8,255	11,844
REPAY. IN $-LOANS			-	8,032	746	843	774	690	11,086	10,268	3,548	6,720
PAY. IN FOR. CURR			3,867	5,980	-	-	-	-	5,980	9,831	4,707	5,124
TITLE II TOTAL		83	2,549	7,668	541	593	768	624	10,193	12,814	-	12,814
E RELIEF... DEV & WFP			754	3,351	167	253	297	168	4,235	4,975	-	4,975
VOL RELIEF AGENCY		83	1,795	4,317	374	340	471	456	5,958	7,839	-	7,839
C OTHER ECON. ASSIST.	12,482	4,045	752	12,231	1,985	2,074	1,554	1,825	19,668	37,141	7,226	29,915
LOANS	5,967	974	58	1,058	-	-	1	-	1,059	8,103	7,226	877
GRANTS	6,515	3,071	694	11,173	1,985	2,074	1,553	1,825	18,609	29,038	-	29,038
C MT[illegible]	635	-	189	7,927	1,632	1,478	986	1,262	13,284	14,108	-	14,108
PEACE CORPS		-	-	1,446	104	99	105	105	1,859	1,854	-	1,854
NARCOTICS			-	184	37	39	35	35	329	390	-	390
OTHER	5,880	3,071	505	1,616	212	458	428	424	3,137	12,687	-	12,687
II. MIL. ASSIST. TOTAL	481	10,064	19,102	48,948	6,725	2,122	3,244	4,195	65,236	94,910	9,704	85,206
LOANS		-	161	10,627	5,173	1,450	2,546	3,084	22,880	22,984	9,704	13,280
GRANTS	481	10,064	19,141	38,321	1,552	672	698	1,111	42,356	71,926	-	71,926
A MAP GRANTS		9,154	16,547	27,620	224	147	170	269	28,439	54,304	-	54,304
B CREDIT FINANCING			161	10,627	5,173	1,450	2,546	3,084	22,880	22,984	9,704	13,280
C INTL MIL ED TRNG		107	717	1,102	28	25	28	42	1,226	2,044		2,044
D TRAN EXCESS STOCK		479	1,322	4,847	-		-	-	4,847	6,374		6,374
E OTHER GRANTS	481	324	555	4,744	1,300	500	500	800	7,844	9,204	-	9,204
III. TOTAL ECON & MIL	12,963	28,698	43,355	124,389	13,845	9,694	10,549	12,324	170,802	251,929	35,819	216,110
LOANS	5,967	2,551	6,011	41,806	7,073	3,443	4,006	4,538	60,867	73,146	35,819	37,327
GRANTS	6,996	25,147	37,344	82,583	6,772	6,251	6,543	7,786	109,935	178,783	-	178,783
OTHER US LOANS	2,091	900	3,653	30,724	4,954	3,766	5,107	3,487	47,938	54,449	40,662	13,787
EX-IM BANK LOANS	2,091	900	3,653	25,801	3,688	3,351	5,023	3,086	40,949	47,255	33,258	13,997
ALL OTHER			-	4,923	1,166	415	84	401	6,989	7,194	7,404	210

* LESS THAN $50,000
** VALUES IN THESE COLUMNS ARE NET OF DEOBLIGATIONS
*** INCLUDES CAPITALIZED INTEREST ON PRIOR YEAR LOANS

a INCLUDES PEACEKEEPING OPERATIONS
b INCLUDES PL 480 TITLE III - FOOD FOR DEVELOPMENT

Source: The Green Book, A.I.D., 1982

TABLE
U.S. Overs[illegible] Loans an[illegible] Obligations
ar[illegible] Loan Aut[illegible]

Since the early seventies, the policy of Congress has been to reduce grant military assistance in favor of FMS, and thereby reduce the burden on the U.S. federal budget. The will of Congress is reflected in section 505 (c) of the Foreign Assistance Act of 1974:

> The President shall regularly reduce and, with as much deliberate speed as orderly procedure and other relevant considerations, including prior commitments, will permit, shall terminate all further grants of military equipment and supplies to any country having sufficient wealth to enable it, in the judgement of the President, to maintain and equip its own military forces at adequate strength, without undue burden on its economy.

The Senate Committee on Foreign Relations, in its report on the Foreign Assistance Act of 1974, recommended that the military grant assistance program be phased out over a period of three years (the Act actually approved in 1974 did not establish a three-year termination period). The Committee also indicated that the policies and purposes of MAP and other grant programs should be periodically re-examined in light of changes in world conditions and the economic position of the U.S. in relation to countries receiving such assistance, consistent with the security and foreign policy requirements of the U.S.[17]

As Table 1 demonstrates, the majority of U.S. military assistance money comes from FMS off-budget sources. Grants and the grant-like Military Assistance Program (MAP) both use relatively scarce "on-budget" money. Thus, due to the difficulties in

obtaining grants under the current constrained federal budget process, there is a strong incentive for certain U.S. Government agencies to make FMS off-budget loans.

Obviously, from the point of view of the recipient country, grants would make the cost of defense relatively cheaper compared to non-defense goods. The result is a change in the budget line and a move to a higher indifference curve. Figure 4 shows this situation.

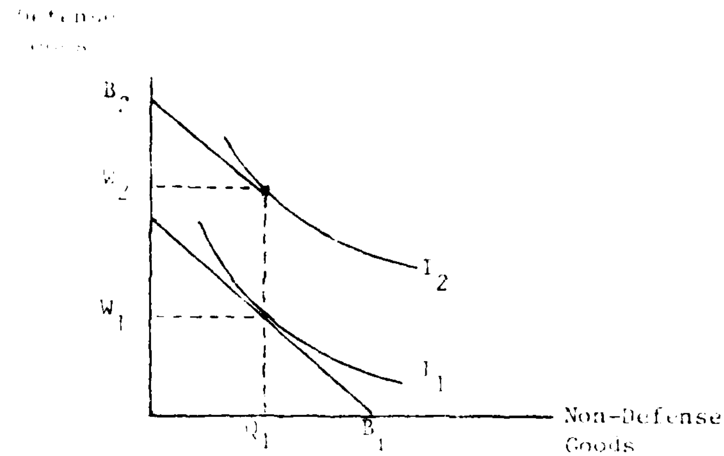

Figure 4 Country A with FMS Grant Aid.

FMS grant aid causes a stepwise increase in a portion of the budget line from B_1 to B_2 because there are strings attached to this money. This grant money must be spent on defense goods, and it must be spent in the United States. But since the grant permits the purchase of more defense goods, the result is a shift from indifference curve I_1 to I_2 when equilibrium is

established. The result is that the cost of the increased defense can be borne without decreasing the amount of non-defense goods in Country A. And this, in turn, allows increased defense without causing the destabilizing internal problems of the FMS loan.

Unfortunately, this still leaves Country A without an increase in non-defense goods. Is it in the interest of the United States to fund both defense and non-defense goods purchases? We believe that the answer is "yes." A balanced aid program will enhance economic growth and security, and will increase the stability of Country A. One of the ways to accomplish this is through the use of Economic Support Funds (ESF), either in grant form or in the form of highly concessional loans which would include a large grant element.

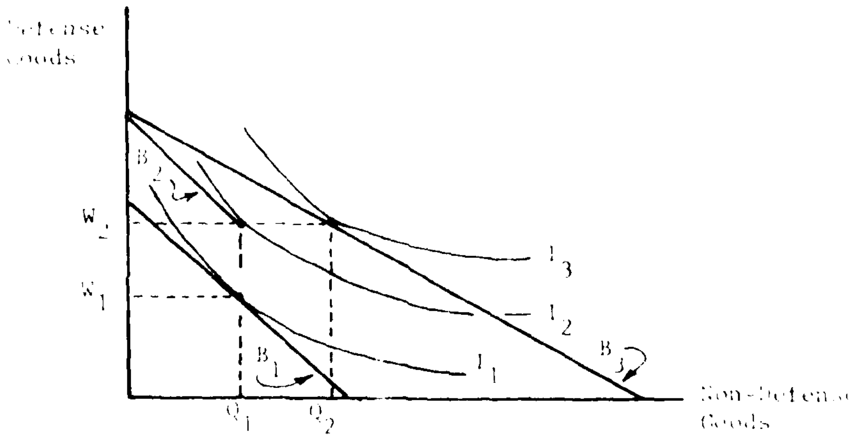

Figure 5: Country A with FMS and Economic Grant Aid

In Figure 5, Country A initially starts at Point 1 with budget line B_1. Grant aid for defense increases its budget line to B_2 and permits a shift to indifference curve I_2. At point 2, Country A pays W_2 for defense while retaining Q_1 of non-defense goods. However, the receipt of economic assistance (ESF) causes the budget line to shift to B_3. Non-defense goods are now relatively cheaper than defense goods, causing a shift to indifference curve I_3 at Point 3. The result of FMS grant aid and ESF in combination is an increased level of non-defense goods (Q_2-Q_1) and an increased level of defense (W_2-W_1). A similar shift to a higher indifference curve, although of less magnitude, would occur if ESF grants were used in coordination with FMS loans.

Could Country A have gained the increase in the budget line from B_1 to B_3 in any other manner? The answer is yes--maybe. Country A could decide to co-produce the weapons it purchases. This would have lowered its overall arms bill as well as increasing its GDP--both of which would have helped to finance the movement from budget line B_1 to B_2. Or, Country A could go one step further--it could have decided to establish an independent arms industry, and even sell arms itself on the international market. India, China, and Israel are examples of LDCs who have embarked on this course of action.

However, both of these approaches suffer major drawbacks. Coproduction, if it is to be meaningful instead of just bolting

the wings on an airplane, for instance), presumes a level of technical competence the LDC may not possess. The U.S. company which sells the product may not be anxious to cooperate, and additional licensing and overhead costs for the weapon will be incurred. If the country decides to actually produce and sell arms, it will find that U.S. permission is required before these sales are allowed if major components of U.S. origin are involved (aircraft engines, for example).

Empirical Evidence

Unfortunately, the empirical evidence shows that except for Israel and Egypt, ESF grants are not consistently used to offset debt service payments generated by FMS loans. For example, Table 2 provides FY 1982 debt service and grant data for 19 representative LDCs. The data indicate little, if any, correlation between debt service and grants. Further, Table 3 provides data on new U.S. loans and grants made in FY 1982. Again, except for Israel and Egypt, there is no consistent correlation between total U.S. loans and grants. Thus, we can conclude that the favorable economic conditions which occur at point 3 in Figure 5 are unlikely to occur, except by chance.

Countries Ranked by U.S. Grants	U.S. FMS Debt Service	U.S. Economic Assistance Debt Service	All External Public Debt Service	Total FY1982 U.S. Grants
Israel	0[1]	0	1841.6	1356.0
Egypt	0[2]	0	1956.0	1034.0
Turkey	182.6	0	2250.0	411.0
El Salvador	0	0	78.1	255.0
Pakistan	0[3]	1.27	616.7	230.0
Sudan	0	0	9.1	203.0
Indonesia	33.9	0	2273.1	186.0
Philippines	30.1	0	1029.0	166.0
Thailand	9.7	0	1497.5	96.0
Honduras	2.3	0	190.9	94.0
Zimbabwe	0	0	296.0	76.0
Morocco	41.05	0	1385.1	74.0
Liberia	.85	0	88.7	73.0
Somalia	0	0	64.5	71.0
Costa Rica	0	0	136.5	56.0
South Kore	243.5	0	4198.4	53.0
Tunisia	23.7	0	742.0	33.0
Oman	0	0	108.3	0
Venezuela	0	0	2834.1	0

Sources: World Bank, U.S. Department of Defense, U.S. Treasury, June 1983.

Notes:

1 FMS debt service payments begin in FY1983. The first payment will amount to 825.15 million dollars. FY1983 grants will be $1.53B.

2 FMS debt service payments begin in FY1983. The first payment will amount to 284.2 million dollars. FY1983 grants will be $1.18B.

3 FMS debt service payments begin in FY1983. The first payment will amount to 8.09 million dollars. FY1983 grants will be $13.3 Million.

TABLE 2
DEBT SERVICE AND GRANTS FOR SELECTED LDCs in FY1982
(Millions of U.S. Dollars)

TABLE 3

U.S. GOVERNMENT LOANS AND GRANTS FOR SELECTED LDCS, FY 1982

COUNTRIES Ranked by US GRANTS	FY1982 U.S. GOV'T GRANTS AND GRANT EQUIVALENTS ($ Millions) ESP & DA	MDB GRANT ELEMENT (US PORTION)	MAP & FORGIVEN FMSCR	TOTAL GRANTS	FY1982 U.S. GOV'T LOANS ($ Millions) FMSCR	EX-IM	CCC	TOTAL LOANS	GNP ($B)	TOTAL USG DEBT OUTSTANDING (Dec.'82) ($B)
Israel	806	0	550	1356	850	6	0	856	22	8.3
Egypt	800	34	200	1034	700	58	0	758	26	6.6
Turkey	301	53	57	411	343	23	0	366	50	3.1
El Salvasdor	182	9	64	255	17	4	27	48	3	.3
Pakistan	200	30	0	230	0	13	50	63	23	2.7
Sudan	152	1	50	203	50	0	0	50	9	.3
Indonesia	91	90	0	186	[illegible]	440	0	481	67	2.2
Libya	156	12	10	178	22	6	0	28	3	.2
Philippines	107	59	0	166	50	35	0	85	40	.7
Jamaica	138	19	1	158	1	8	34	43	3	.3
Brazil	1	104	0	105	0	159	283	442	290	2.0
India	0	100	0	100	0	74	0	74	63	3.3
Thailand	36	56	4	96	75	49	5	127	36	.3
Honduras	81	2	11	94	19	1	0	20	5	.2
Dominican Republic	82	7	1	90	4	3	60	67	7	.4
Zimbabwe	75	1	0	76	0	6	0	6	6	NEG
Morocco	63	11	0	74	30	22	76	128	18	.7
Liberia	66	2	5	73	7	1	0	8	.4	.2
Somalia	56	0	15	71	10	0	0	10	.4	.1
Costa Rica	52	2	2	56	0	1	16	17	5	.1
Korea	4	49	0	53	166	81	437	684	60	3.5
Portugal	20	6	20	46	45	3	301	349	20	.5
Colombia	3	36	0	39	10	558	0	568	34	.8
Poland	36	0	0	36	0	0	26	26	103	1.0
Tunisia	17	16	0	33	95	7	0	102	9	.5
Oman	15	14	0	29	30	1	0	31	6	.1
Spain	22	0	0	22	125	38	0	163	185	1.[illegible]
Jordan	15	6	0	21	55	3	0	58	2.3	.8
China (Taiwan)	0	2	0	2	0	225	0	225	32	1.7
Greece	0	0	0	0	0	0	0	0	72	.1
Venezuela	0	0	0	0	280	0	0	280	26	.7
% of Total Aid Category	91%	45%	99%	--	97%	50%	93%	--	--	66%

SOURCES:
- Total Debt: U.S. Department of Commerce Bureau of Economic Analysis.
- FMS Data: Congressional Presentation Document, DSAA.
- EX-IM Data: Export-Import Bank of the United States.
- ESF & DA, MDB: U.S. Overseas Loans and Grants, AID.

The total outstanding external debt of LDCs, including U.S. FMS loans, continued to increase during the period 1980-1982. This pace appeared to be more moderate than the average over the decade 1971-1980. Data collected by the World Bank indicate that external public and private long-term debt outstanding (disbursed) of 98 developing countries rose at an annual rate of 21 percent during the period 1971-1980, compared to about 15 percent during 1980-1982.

These data tend to understate the growth of LDC indebtedness and to mask the overall gravity of their external debt position. The current account deficit of LDCs rose sharply in calendar years 1980, 1981, and 1982, and external short--term borrowing increased to cover current account deficits. Furthermore, in 1980-82, interest rates continued to rise, and are expected to remain high for the period 1983-84 compared to the average during the last decade. Also, LDC export earnings have risen less rapidly than debt service payments, and even substantial cuts in imports to reduce current account deficits would not entirely alleviate debt service problems. Such [illegible] encourage LDCs to rely heavily upon short-term financing to cover current account deficits, and indeed, they have done so in 1980, 1981, and 1982 to a greater extent that in any previous year since 1975. Some observers, including World Bank officials, have expressed the concern that LDCs have resorted to short-term financing beyond

sustainable limits. Current evidence of rescheduling and arrearages by most LDCs supports this concern.[18]

As the sample in Table 4 demonstrates, the specific effects of FMS loan service fall very unevenly across the LDCs. For some, FMS payments will increase to a substantial part of total debt service by 1986. For others, the effect will be minimal.

TABLE 4

RATIO OF
FMS DEBT SERVICE*
TO
TOTAL PUBLIC DEBT SERVICE**

COUNTRY	FMS PAYMENTS/PUBLIC DEBT SERVICE (%) 1982	1986
Egypt	0	7.42
Indonesia	0.59	0.33
Israel	30.99	34.90
Korea	11.57	2.98
Morocco	2.90	1.00
Pakistan	0	2.39
Thailand	3.07	3.93
Tunisia	4.48	8.20
Turkey	11.81	14.47

* FMS Debt Service figures based on DSAA estimates.
** 1982 and 1986 Public Debt figures based on Chase, DRI and OSD/ISA/PA/IEEA estimates.

At first glance, the distribution of debt and debt service obligations suggest that the servicing burden falls most heavily on LDCs that have the greatest potential capacity to bear it--LDCs with economic prospects that are better than the aggregate prospects for the LDCs as a group. Approximately two-thirds of current LDC debt is accounted for by only 13 of the 98 LDCs, of

which six are significant exporters of manufactured goods (Argentina, Brazil, Israel, Korea, Spain and Yugoslavia), and five are crude oil exporters (Algeria, Egypt, Indonesia, Mexico and Venezuela). These five oil exporters have, however, borrowed heavily based upon expected oil revenues. As stated earlier, world oil prices have dropped from over 34 dollars per barrel (benchmark) in 1980 to 29 dollars in 1983 and may go as low as 25-27 dollars by 1984. Egypt, Indonesia, Mexico, and Venezuela have recently asked creditors for substantial rescheduling of debt. The remaining 85 LDCs have, for the most part, relatively worse economic prospects for the remainder of the decade, and debt service will continue to be a major financial problem for these countries.[19]

IV. POLICY IMPLICATIONS

General

For most LDCs, U.S. FMS debt service is a relatively small portion of total external public debt service.[20] Nevertheless, FMS debt service generates an outflow of foreign exchange currency that can reduce potential LDC growth and contribute to economic instability. Further, a default on FMS loans as a result of LDC economic instability could damage the creditability of U.S. security assistance programs.

Any proposal which successfully deals with the FMS portion of LDC debt service must be able to function within certain legal

and political constraints. For example, U.S. negotiations on LDC debt rescheduling must take place within the legal framework of current International Monetary Fund (IMF) agreements. Also, dealing with a single element of a particular country's debt service, such as FMS, without at least reviewing all other debt owed by that country is against stated U.S. policy. Ideally, a debt service review for a particular LDC would consider all legal and policy provisions which constrain the U.S. Government's ability to change FMS debt service requirements. Also, any program of debt relief must be tailored to reward a country that diligently endeavors to service its current public debt, and provide disincentives for default.

The FMS debt service problem has two distinct elements:

(a) Problems associated with the accumulation and servicing of old debt, and

(b) Problems associated with future financing and the need to break the cycle of increasing debt.

Of the two, legal and policy constraints most directly effect the range of options for dealing with accumulated debt. However, for both elements of the problem, we suggest the following general solution: the U.S. Government should stop using "boiler plate" assistance packages and should give priority to careful examination and treatment of the individual economic needs of each recipient nation.

The recognition that every nation has different credit requirements based on its economic status and future prospects should lead to specific mixes of grant and loan aid which are tailored to each country's individual needs. These distinctions could be made through the use of the "credit-worthiness" evaluations currently employed by international bankers. In fact, simply treating nations differently based on the World Bank's guidelines for lending operations would be a good start in this direction.[21]

The Problem of Accumulated Debt

Debt which has accumulated from past borrowing creates a twofold problem. It decreases credit worthiness while, at the same time, it creates liquidity problems as scarce foreign exchange currency is used to pay debt service. Both problems can be relieved by either reducing the total amount of accumulated debt or by rescheduling debt service payments. However, legal and policy prohibitions directly effect our ability to reduce a country's past debt, and new approaches, such as the following options, may be more useful:

(1) Retroactively Forgive Loans: This would reduce the amount of debt, but the money to do this would have to be included in current U.S. budget appropriations. It is highly unlikely that present U.S. economic conditions would allow the appropriation of enough money to fund new programs and reduce past debt all at the same time.

(2) Refinancing of Existing FMS Loans. This would allow new Federal Financing Bank (FFB) loans to replace old loans which were made at higher interest rates. This option requires at least a policy change and probably a legal change in the way the FFB is managed. In addition, it would only address problems caused by the relatively high interest rates of the last few years.

(3) Rescheduling of Loans. This would provide some short-term relief on loan payments, but it would do nothing to decrease the total amount of debt. In addition, this type of action could probably be accomplished only through the Paris Club and only as a part of a much larger rescheduling move.

(4) Loan Repayment Through Barter. This would help any country which was short on foreign exchange currency--but it presumes that there exists a demand for the bartered goods by the U.S. Government which the country could not otherwise enjoy simply by selling on the international market. Aside from stockpiling requirements, it is unlikely that such a situation would exist. In addition, the U.S. Government is currently prohibited by law from accepting non-cash payments for loans, and thus either some intermediate agent would be required to convert the bartered goods to cash, or a change of law would be necessary.

(5) Reduce Loan Repayments Through the Use of Grants. This would entail using a grant instrument such as ESF to provide cash to an LDC to make its annual loan payments. This could be done in several ways. ESF could be used directly, but changes in ESF laws would be required. Or, ESF could simply be given to the country and the U.S. Government could rely on the principle of fungibility to allow coverage of repayments. An additional idea would be to appropriate specific grant monies for debt repayment and then to simply use these to cancel part of the country's accounts each year. Increasing ESF funds or generating new grants both have the obvious disadvantage of again raising the U.S. budget appropriations for security assistance.

In sum, current legal and policy restrictions are such that it is extremely difficult to deal with past debt accumulations. Very few viable options are available, and all would appear to require some degree of "double funding" as appropriations are made to cover both current programs and past obligations.

The Problem of Expected Future Debt

To keep problems which have arisen from past debt accumulations from being further complicated, the entire debt cycle must be broken. This means that future FMS deals must be constructed with an eye toward reducing potential debt. Several options are available which would facilitate the process:

(1) <u>"Buy-Down" the Interest Rates on FMS Loans.</u> This would reduce future loan service, particularly in times of high interest. It would require appropriated money to contribute the grant element of the buy-down, but it would allow maximum leverage in the use of this money. The is currently no precedent for this type of program.

(2) <u>Trade "Dollar for Dollar" on Program Reductions and Grant Assistance.</u> This would reward a country for reducing its overall program level by increasing its grant aid. The money required would be an on-budget appropriation. This concept detracts from the arbitrary manner in which program levels are devised. It would probably be necessary to use a straight-lining concept to develop a base level for the country program, and then to measure variations around this point. However, this does not allow for the possibility of an increasing threat and it assigns little credibility to the country threat assessment process.

(3) Use Floating Rates. Virtually all international lenders are now using floating rates. This innovation would help FFB borrowers in times of decreasing interest rates and, if high interest rates can be assumed to be transitory, it would assure that a country was not penalized simply because it purchased weapons at a time of high rates.

(4) Lengthen Drawdown Period on FMS Loans. Currently, FMS loans must be drawn down within a two-year period. If this period was extended, a country would have more flexibility on the interest rates it would be required to pay. However, this would remove the sense of "immediate aid" from the FMS program and alter the character of such assistance to that of a long-term, slow reaction program. This would be a fundamental change in the concept of FMS aid.

(5) Limit Sales for Credit Reasons. Here a current estimate of the recipient country's economic viability would be used to establish how much loan assistance could be granted. Beyond that point, further loans would not be made, and either grant aid or a cessation of sales would be required. This option, like (2) above, also weights economic factors heavier than threat assessment.

(6) Increase Grants and Highly Concessional Loans. This deals most directly with the problem of future debt. However, it has obvious on-budget impacts on appropriations and may be difficult to implement in times of U.S. economic austerity.

There appear to be a number of possible ways to deal with future debt, many of which would not be so difficult to implement as those which address total debt. Again, increased on-budget funding would be required unless FMS sales are simply curtailed.

In conclusion, no program can adequately provide security assistance unless it is tailored to, and cognizant of, the

specific needs of the recipient nation. After that, the program may or may not be able to deal with the problems of past and future debt. In reality, any decision maker in this arena is constrained to choosing between two avenues of approach: (1) Do nothing and continue to run the FMS loan program as has been done in the past. (2) Attempt to solve problems arising from FMS debt using either methods suggested in this paper or other possible methods.

APPENDIX 1

COUNTRY ANALYSES

This appendix presents an economic analysis for 19 selected LDCs that are of particular interest to both the Department of Defense and the State Department. These 19 are: Costa Rica, Egypt, El Salvador, Honduras, Indonesia, Israel, Korea, Liberia, Morocco, Oman, Pakistan, Philippines, Somalia, Sudan, Thailand, Tunisia, Turkey, Venezuela, and Zimbabwe.

The Forecasting Models

The analysis for each country is based upon Chase Econometrics, Wharton, U.S. Department of Commerce, and U.S. Department of Defense forecasts of LDC economic activity for the period 1983-88. We also provide annual public debt service amounts based upon current loans. These data were obtained from the World Bank, the Agency for International Development (AID), and the Defense Security Assistance Agency (DSAA).

We begin with a general description of the forecasting models which were used as a basis [illegible]. The Chase Econometrics and Wharton models follow approximately the standard structure of macroeconomic mo[illegible] LDCs [illegible] the specialized literature.[22] Each model is essentially Keynesian, and is developed on the basis of national income and balance of payments accounts adapted to the particular country data availability and special structural features of each economy

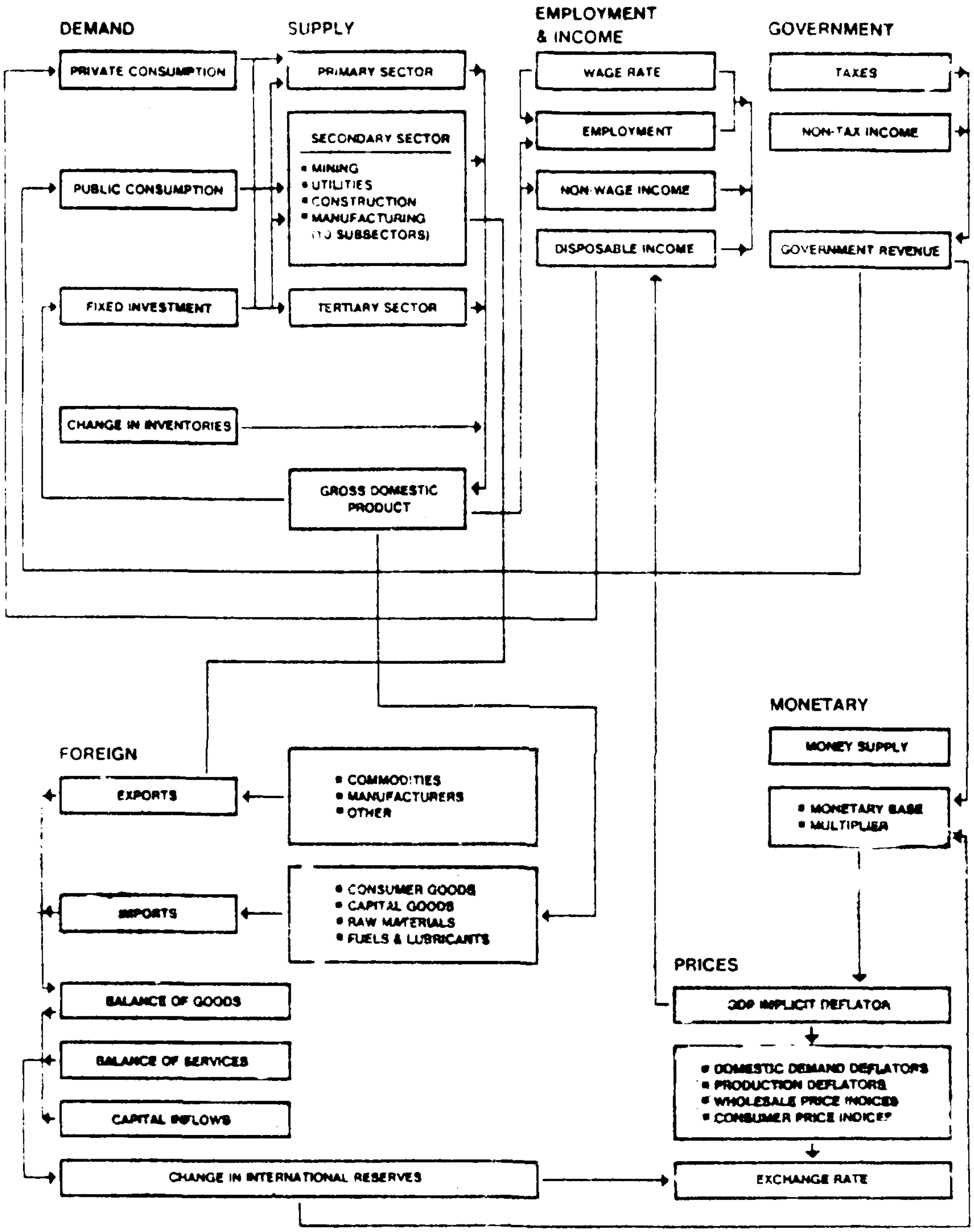

Figure 6: Chase Econometrics Macroeconomy
Model for a Particular Country.
Source: Chase Econometrics, 198?.

As illustrated in Figure 6, each model is built around gross domestic product, private consumption, and investment functions. Private consumption is dependent on disposable income and a marginal propensity to consume based on an econometric analysis of recent historical data (1961-76). The investment function is determined by the aggregate level of economic activity (GDP) and credit availability. These two variables, coupled with the demand for the country's exports and the demand for goods and services from the government sector, determine the output from manufacturers, construction, mining, utilities, services, and agriculture that comprise gross domestic product on the supply side.

Essentially, private consumption, private investment, imports and exports are determined by behavioral equations which are endogenous to the model. Government consumption, public investment, foreign assistance (grants and loans), and net external capital investment are exogenous and are determined by an analysis of trends [illegible] from [illegible] variety [illegible]. In particular, we have provided data and forecasts [illegible] U.S. loan assistance. Data and forecasts [illegible] exogenous [illegible] obtained from the World Bank, the International Monetary Fund, and Chase Econometrics.

Disposable income in real terms is a function of wage policy and employment, depending on the level of activity and

distributed profits, discounted for price inflation. Wages, labor productivity, import prices, and monetary policy determine domestic inflation. Prices, exchange rates, and domestic economic activity determine import demand. Import demand then feeds into the balance of payments accounts to determine, along with services and interest payments, the current account deficit or surplus.

THE FORECAST FOR COSTA RICA

Costa Rica is continuing to endure an acute economic and financial crisis. In 1981, real GDP fell for the first time in twenty years. This trend has continued and real GDP is projected to decline by 5.9 percent in 1983. Inflation, as measured by the wholesale price index, accelerated to an unprecedented 117 percent in 1981 and was at a 79 percent rate in 1982. The unemployment rate rose from 6 percent in 1980 to 9 percent in 1982. The sharp deterioration in Costa Rican economy has been caused by a multitude of events. High energy prices, the worldwide recession, disruption of the Central American Common Market and high interest payments on external debts are among the major external factors. Large public sector deficits and sizeable exchange subsidies by the Central Bank have also contributed to the declining economy.

The 1977 current account surplus of 1.1 percent of GDP changed to an 8.4 percent of GDP deficit by 1981. Similarly, the balance of payments surplus of $43.[illegible] million in 1977 eroded into a $132 million deficit by 1981. The [illegible] the Costa Rican currency (the colon) with respect to the U.S. dollar has declined by 376 percent over the past [illegible] years. External debt service payments were suspended in August [illegible].

In Costa Rica, agriculture and related sectors have historically accounted for 22 percent of GDP, 36 percent of the labor

force and half of all exports. Coffee, bananas, and livestock typically account for 80 percent of agricultural output and 85 percent of all agricultural exports. Agricultural output declined significantly in 1982 due to adverse weather conditions and weak foreign demand.

Manufacturing accounts for 22 percent of GDP, 15 percent of the labor force and 40 percent of exports. Food processing represents half of the manufacturing value added. Political disruptions in the Central American region coupled with the severe slump in the domestic economy and problems in obtaining raw materials have adversely affected the manufacturing sector.

The utilities sector has been gaining in importance in recent years due to sizeable public investment. The movement into hydroelectric power has allowed Costa Rica to reduce oil imports considerably. In fact, Costa Rica currently exports electricity to Nicaragua and Honduras and expects to begin sales to Panama in [illegible].

From 1978 to 1981, the Costa Rican public sector budget suffered an overall deficit which tripled in absolute terms and increased from 9 percent of GDP in 1978 to 14.5 percent of GDP in 1981. In 1982, the Costa Rican government took action to contain expenditures and raise taxes and public enterprise tariffs. The result was an overall deficit of 9.1 percent of GDP by the end of

1982. To finance the overall deficit, the nonfinancial public sector relied heavily on domestic credit during the 1978-80 period. Domestic financing was reduced from 6.5 percent of GDP in 1980 to 3 percent in 1981, reflecting the higher level of foreign financing in terms of colones as a result of the devaluation and accumulation of unpaid interest.

The net domestic assets of the banking system expanded rapidly during the 1978-1982 period. The public sector's need for financing was the cause from 1978-1980, and the accumulation of large external payments arrears and emergence of exchange subsidies since 1980 accounted for monetary growth. By the end of 1982, the outstanding arrears were at $1.1 billion.

Costa Rica's outstanding medium and long-term public and publicly guaranteed external debt has grown at an annual rate of 25 percent since 1978. Such debt increased from $1 billion at the end of 1978 to $[illegible]6 billion by the end of 1982. The average debt maturity fell from [illegible].3 years in 1978 to 9.[illegible] years in 1981, while average grace periods fell from 5.[illegible] years to [illegible] years. The average interest rate rose during this period from 8.7 percent to [illegible] percent and the grant element of total debt declined from 9.7 percent to .5 percent. There was an improvement in borrowing terms in 1982 since 70 percent of new loans were contracted from multinational lending institutions at concessional terms.

The debt service burden of Costa Rica's loans has become very troublesome. Contractual debt service payments increased from 1978 ($302 million) to 1982 ($656 million). This represented a tripling in the debt service ratio from 19 percent to 58 percent between 1978 and 1982. Delays in debt service payments by the public sector began in mid-1981. By August of 1981, Costa Rica stopped servicing all external debts except those with multinational creditors. With the installation of the new administration in May 1982, Costa Rica, under the sponsorship of the Paris Club, signed a debt rescheduling agreement with ten creditors including the U.S. In April of 1983, a Memorandum of Understanding was signed with commercial banks regarding debt rescheduling, and in May of 1982 proposals were made regarding outstanding U.S. dollar-denominated CDs. Despite such efforts, the debt service burden is expected to continue. Even with the agreements, debt service payments are projected to increase from $476 million in 1983 to $500 million in 1988.

The U.S. Government portion of the Costa Rican public debt service is relatively small. Total U.S. loans including FMS, AID, Ex-Im Bank, Export Credit, and PL-480 will amount to three percent of total Costa Rican foreign debt service in FY 1983. U.S. FMS for the same period will account for .16 percent of Costa Rica's total foreign debt service. Details on debt service are provided in Table 5.

While improving world trade conditions will assist Costa Rica's economic plight, only modest growth is anticipated for the immediate future. The debt service burden will not dissipate quickly and will hamper recovery possibilities.[23]

Fiscal Year	All External Debt[1,2] Prin	All External Debt[1,2] Interest	MILITARY: US [illegible] Loans [illegible]	MILITARY: US [illegible] Loans Interest	ECONOMIC: US AID Loans[3] Principal	ECONOMIC: US AID Loans[3] Interest	ECONOMIC: Ex-Im Bank Loans[4] Principal	ECONOMIC: Ex-Im Bank Loans[4] Interest	ECONOMIC: EXP Credit Loans Prin	ECONOMIC: EXP Credit Loans Interest	ECONOMIC: PL 480 Loans[3] Prin	ECONOMIC: PL 480 Loans[3] Interest
1982	54.4	82.[illegible]	--	--	--	--	--	--	--	--	--	--
1983	248.7	163.4	1.0	0.06	1.933	2.233	4.9535[5]	1.6345[5]	0	0	0	.602
1984	258.2	148.1			1.960	2.490	5.059	1.033			0	.516
1985	302.2	13[illegible]			2.268	2.639	4.295	.775			0	.516
1986	293.4	[illegible]07.4			2.563	2.684	3.259	.565				.516
1987	233.5	89.7			2.421	2.668	2.373	.405				.516
1988	18[illegible]	74.0			2.507	2.662	1.675	.246				
1989	123.4	61.8			2.765	2.601	6.5736[6]	.0616[6]				
1990	99.[illegible]	54.2			3.039	2.584						
1991	1[illegible]2.1	47.4			3.155	2.509						

[1] As of December 1981.
[2] Public Debt Only.
[3] As of September 30, 1981.
[4] As of March 31, 1983, (Short-Term FICA Excluded).
[5] Calendar years, 1983 is last three quarters only.
[6] For all 1989 entry and all subsequent years.

Note: These figures are based on World Bank data and may not reflect all debt. These data are provided as an indication of trends only.

TABLE 5
DEBT SERVICE ON EXISTING LOANS FOR COSTA RICA
(In Millions of U.S. Dollars)

THE FORECAST FOR EGYPT

The Egyptian GDP, which registered an impressive average annual growth rate of 8 percent during the period 1974-79, leveled off to 6.0 percent in 1980-82. This leveling was due largely to the worldwide recession and, in particular, the drop in world oil prices. Lower world oil prices have not only affected the Egyptian balance of payments but also the level of domestic economic activity. Egypt had relied upon revenues from oil exports to finance a 20 percent annual increase in the value of imports, primarily food, which now accounts for over half of Egypt's import bill.[24]

The structural problems that Egypt faces appear to be well entrenched. Foremost among these is rapid population growth which, ceteris paribus, indicates a worsening jobless situation in the future. The labor force is increasing at a current rate of [illegible] thousand to 400 thousand per year, and is growing faster than the economy's capacity to create new jobs. In the past, the unemployed have consistently found employment in other Arab countries, but, for social and political reasons, these nations are less willing to accept Egyptian labor compared to the decade of the 1970s.

The rapidly expanding population, coupled with a limited supply of arable land, has produced much faster growth in agricultural consumption relative to production. Adding to the problem

are the Egyptian Government's agricultural pricing and farm subsidy policies that have attempted to hold consumer food prices at fairly constant levels. Subsidies have stimulated domestic consumption and controls at the producer level have discouraged farmers from cultivating crops whose prices are subject to official controls. Consequently, imported food now accounts for about 50 percent of the country's domestic requirements and constitutes about 44 percent of the country's annual total import bill. The subsidy program is not limited to food, but applies to a broad range of commodities, particularly petroleum. At present, Egyptians pay only about 20 percent of the international price of oil, which has not only stimulated growth in domestic oil consumption to a rate of about 12 to 15 percent per year over the period 1980-82, but has reduced the exportable petroleum surplus during the same period.

The problems of development in Egypt are twofold; creating productive jobs and generating foreign exchange to finance development. Until now, Egypt has relied heavily on substantial annual inflows of foreign exchange earnings, principally from Egyptian expatriate oil workers' remittances.

However, remittances have dropped from over 3 billion in 1980-81 to slightly over 2 billion in 1982-83. This fall is due in part to a cutback in Egyptian expatriates, but it was also affected by a sharp fall in the value of the Egyptian pound

compared to major trading currencies.

During the past decade, Egypt also benefited from highly concessional loans from the U.S. and other developed countries. In 1981-82, concessional loans amounted to over 2.1 billion dollars with over half coming from the U.S. However, in his January 1983 visit to Washington, President Mubarak failed to obtain an agreement which would allow a portion of U.S. economic assistance (AID loans) to be allocated to balance-of-payments support. He also failed to get U.S. military assistance raised from 1.3 billion dollars to 1.7 billion with a large part of that aid forgiven to gain Egyptian parity of treatment with Israel.[25] Egyptian officials were not putting too much store in the prospect for further American largesse, given the depressed state of the U.S. economy and the growing controversy in Congress at the disproportionate share that Egypt and Israel take of total U.S. development aid to the Third World (about two-thirds). President Mubarak did, however, gain American concessions on greater flexibility in the use of aid. Civilian and military aid are scheduled to remain at current levels in 1984, but no promises have been made beyond that point. (See Table 9 for details.)

Further evidence of the harsher economic climate emerged when World Bank President Tom Clausen visited Cairo in January, 1983. Egypt had hoped to be reinstated as eligible for new highly concessional loans from the International Development Agency for the

period 1983-84. Instead, Mr. Clausen offered to raise lending from a current 470 million dollars to 600 million dollars per year, over the next five years, at an interest rate of 10 percent per year. As a result, the World Bank is no longer a particularly attractive source of finance for Egypt.

The increasing cost of finance has been felt in debt servicing, which has doubled in the past two years as the grace period on loans rescheduled in 1977 begins to lapse. The quest for new loan financing is becoming more difficult. With U.S. economic assistance at current levels in doubt beyond 1986, Egypt can no longer automatically rely on a total of 2.1 billion dollars of low interest rate foreign loans being available each year. Access of Arab funds therefore becomes crucial if planned Egyptian Government programs, particularly in defense, are put into effect.

The Egyptian Government has done a great deal to develop transport and communications infrastructure, which accounted for 17 percent of planned government expenditures in 1981-82. Power generation accounted for 8.0 percent of government expenditures. All three areas have been major beneficiaries of foreign aid. The French-financed Cairo metro project got underway last year. Talks are still progressing with France on the first two of eight nuclear reactors that the Egyptian Government hopes will be producing 40 percent of Egypt's electric power by the turn of the

century. However, the shelving of a special fund set up from oil revenues for this purpose has raised the question of finance.

Transport and communications will continue to be major areas of economic activity, but the 1982-87 Egyptian Government Economic Plan emphasizes oil, agriculture, and industrial development as the three sectors bearing most on the country's ability to generate exports and stem the level of food imports.

The oil industry is, in fact, increasingly upbeat about its prospects for the period 1983-88. Hopes are pinned on the Gulf of Suez and the area north of Hurghada on the Red Sea, where a British Petroleum- led consortium has found a potential 100 thousand barrel per day reserve at Zeit Bay.

Plans for an extensive petrochemical industry, including refineries and transport terminals, have been shelved in view of the world oil glut. However, two new refineries are being built at Suez and Assiut, which will bring refinery capacity to 400 thousand barrels per day by 1985. The increasing importance of natural gas will be reflected in the expansion of the domestic user extension program in Cairo and the start of a similar program in Alexandria. The conversion of conventional fuel power stations and other industrial users to gas will continue.

For the period 1982-86, the Egyptian Government hopes to increase oil production by 10 percent per year, and to boost oil

exports. The heavy investment in the oil sector (around 300 million Egyptian pounds a year, quite apart from the 2 billion dollars foreign oil companies have undertaken to spend in exploration over the next five years) means that oil and oil products will continue to account for a significant proportion of exports and of GDP during the forecast period. However, the near zero growth in the past two years has pulled down the sector's contribution to GDP from 18.2 percent to 16.8 percent. The growth rate for the oil sector is expected to increase to over 10 percent by 1988, however, oil's share of GDP will remain at 16-17 percent.

Agriculture is poised to regain some of the ground lost in the past two decades. Growth rates are expected to improve slowly over the forecast period from around 3 percent to 3.5 percent under the beneficial efforts of the drainage program and [illegible] agricultural productivity. The shift to relatively free [illegible] agricultural product pricing will also help. However, as the agricultural growth rate is currently well below overall GDP growth, the contribution of agriculture to GDP will continue to shrink, coming down from 19.0 percent in 1982 to around 16 percent in 1987. Agriculture and food security will account for about 12-14 percent of total public and private investment during the period 1982-87.

A major plank in the policy of checking import growth is to rationalize consumption of imported agricultural products, which

is growing 5 percent a year under the influence of a 2.8 percent annual increase in the population. This will be done by pegging food subsidies to 2.0 billion Egyptian pounds and bringing them down as a percentage of a growing GDP. The 1982-83 budget assumes that subsidies as a percentage of GDP will fall from 10 percent to 8.2 percent. However, last year's subsidy bill was 300-400 million Egyptian pounds more than the 2 billion preliminary estimate, and only lower cereal prices lend any credibility to this year's target.

In general, the Egyptian Government will concentrate on bringing [illegible] much spare industrial productive capacity into use as possible over the period 1983-88. The emphasis has moved from [illegible]s and services to food security and manufacturing, with [illegible] of reducing imports and increasing exports. Exports are [illegible] grow at 8.5 percent per year and the growth in imports [illegible] held back to 4 percent a year. Total public and private [illegible]ment is expected to average 34 billion pounds per year, of which the private sector will provide [illegible] percent. The slightly lower investment target means the emphasis will be on rehabilitation, improving plant utilization [illegible] the estimated $[illegible].5 billion backlog of undisbursed aid, rather than launching major new capital intensive projects.

The fall [illegible] growth rate from [illegible] percent to 6.0 percent in 1981-82 was largely due to the poor showing of oil.

Also, the performance of the oil sector over the next few years will largely determine how fast industrial production recovers. Industry, on the other hand, is improving steadily on the 7-9 percent growth rates of the 1970s and should average a 9-10 percent annual improvement over the next five years. This will bring its share of GDP up to 20 percent by 1987 as government infrastructure programs and public sector pricing reforms continue to bear fruit.

Import duties and tax revenues continue to show only modest growth despite attempts to rationalize tax structures and improve collections, so the government deficit is calculated to rise from an actual 4.49 billion pounds in 1981-82 to 4.85 billion pounds in [illegible]82-83. Higher interrest rates are beginning to attract significant savings, but in barely sufficient quantities to offset a [illegible] available foreign credits and loans, so the 3.35 billion [illegible] available to finance the deficit is only 150 million [illegible] than the previous year--less than the rise in the gross deficit. The net deficit to be financed by the banking system will therefore increase from an actual 1.3 billion pounds in 1981-82 [illegible] 1.5 billion in 1982-83. The Egyptian Government is expected to reduce government capital expenditures rather than see the net deficit rise much higher.

The world market price of oil will be the key determinant of Egypt's foreign exchange earnings in 1982 and beyond. Other

foreign exchange earners are workers' remittances, tourism and Suez Canal dues.

As previously stated, workers' remittances will be affected by a decline in demand for expatriate labor in the Arab states even though demand for Egyptian guest workers is relatively inelastic. A modest recovery in remittances can be expected in 1984 as the Egyptian pound stabilizes and the effect of higher domestic interest rates begins to attract higher savings.

The country's hotel room stock has doubled in the past few years, so the tourist industry is theoretically well-placed to meet any upturn in business. The speed at which tourist revenues pick up, however, depends on how quickly the Western economies recover. Egypt's unique ancient sites ensure a bedrock of tourist earnings. However, expansion into the highly competitive beach tourism market with the development of the northwest and Red Sea coasts could run into problems as Egypt has yet to earn a reputation for [illegible] money spent. Consequently, only modest growth [illegible] the next five years.

The more ambitious plans to make the Suez Canal into a two-lane waterway have been shelved and development and expansion limited to providing more bypasses. This will limit the scope for a major increase in foreign exchange earnings. However, the

Suez Canal has ridden out the recession relatively well. A 5-10 percent hike in tolls in January 1983 will help boost earnings by 12-13 percent in calendar year 1983. Beyond 1983, earnings are forecast to grow at 10 percent a year over the decade of the eighties.

As previously stated, the Egyptian Government will concentrate on promoting oil, industrial, and agricultural exports. Oil exports are expected to grow at a rate of 10 percent per year over the period 1982-88, assuming that domestic consumption stabilizes. Planners estimate that non-oil exports will have to grow at an annual rate of 12-13 percent if the economy is to make the transition from an oil-and-services-led export base to manufacturing by the end of the century. Agricultural exports, which currently run to 300 million dollars, should maintain a steady 10-15 percent annual growth as the market cashes in on Egypt's unique growing conditions. Export penetration of developed markets will be minimal, and Egypt will be looking to the Third World to expand trade.

No major shifts in the structural component of imports is foreseen over the period 1983-84. The plan to limit the growth in imports to 4 percent a year in real terms is unrealistic if a high level of capital spending is to be maintained--and this is a prerequisite for the 6-8 percent growth rates in GDP envisaged in the plan. The improvement in agricultural production will only

make a marginal impact on imports because consumption is rising more quickly.

The Egyptian Government will probably erect tariff barriers to protect local industries by curtailing the demand for merchandise imports. A number of projects like the World Bank-sponsored Dikheila steel plant will make a major impact through import substitution. This will also be true for the proposed 2 billion dollar fertilizer complex at Safaga, which will use phosphate rock from the Abu Tartour deposits in the Western Desert and feedstock from the Gulf of Suez gas fields. If the project proceeds, Egypt would not only become self-sufficient in fertilizers, but also a net exporter.

No major changes are foreseen in the pattern of trade, which is determined by the availability of cheap credits. The U.S., which currently accounts for nearly 25 percent of merchandise imports, will continue to dominate. France, West Germany, Japan and, to a lesser extent, the U.K., will remain major trading partners.

Under the effects of a slow deterioration in balance of trade, the current account deficit will widen to cover [illegible] billion dollars by 1988. Financing the current deficit has always been difficult because of the traditionally high level of unaccounted payments. Equally, the government has utilized unaccounted revenues such as

the special oil fund (shelved this year) which was set up in 1981 to finance the nuclear power program. More recently, the government has had recourse to the 1 billion dollars in arms sales to Iraq. The proceeds from that sale have been placed in a special fund which does not appear in the accounts, but which have certainly helped alleviate the need for outside funding in 1983.

Net private direct investment will show a steady improvement during the period 1983-88, reflecting not only a continued growth in the oil sector but also a steadily rising flow of capital for private sector joint ventures. Western non-oil capital, which has amounted to less than 500 million dollars since 1974, will continue to play a small role in private sector investment. U.S. private investments in Egypt will be helped by the signing of an investment treaty last year and the setting up of an Egyptian-American Chamber of Commerce. There should therefore be some improvement on the 150 million dollars of private U.S. investment in Egypt. Other significant foreign capital inflows, both official and private, are heavily predicated on a formal reapproachment with the Arab oil states.

The authorities will certainly be looking for concessional aid to reduce part of the balance of payments deficits, and will act more concertedly to reduce the 3.5 billion dollars backlog in payments. Disbursements will be higher than new commitments, and there will still be an annual 1.1-1.3 billion dollar net inflow

of official funds after loan repayments over the next five years.

The cost of servicing new official loans--currently around 6.5 percent--will rise and maturity rates will shorten if concessional loans cannot be found. With reserves available to finance 1.5 months of imports, there will be virtually no ability to run reserves down to finance the deficit, so the government will be thrown increasingly on commercial markets for funding.

Egypt can currently borrow at 5-8 percent above the London Interbank Overseas Rate (LIBOR), and has barely tapped the Euromarket. Egypt will also make maximum use of supplier credits. However, the sharp rise in the use of supplier credits [illegible]-82 will not be repeated in the current year and will only [illegible] to expand towards the end of the forecast period (1983-88), [illegible] imports pick up again. Egypt could also negotiate a [illegible]-term credit with the IMF, indeed may be forced to, but the [illegible]etary and subsidy reforms, particularly with regard to agricultural products, would likely entail political consequences.

These predictions are at variance with the official target of limiting the rise in medium-term [illegible] to 3 [illegible] dollars over the life of the current plan, through the utilization of existing unused credits and encouraging foreign exchange earnings. Egypt is looking for 6 billion dollars in new loans to cover an expected foreign exchange gap of [illegible] billion. This would raise

the official debt from a current 16 billion dollars to 19 billion against the Wharton forecast of 22 billion. Including private loans, Wharton predicts the total debt will rise from 17.5 billion dollars to nearly 27 billion dollars. Far from the debt service to export ratio coming down from 17.5 precent to 15.5 percent as envisaged in the plan, it will probably rise to over 20 percent.

The U.S. Government portion of Egypt's foreign debt service burden will be 20-25 percent in 1983. If no new foreign loans are obtained, the U.S. share of debt service will increase steadily to 37.4 percent in 1988. In 1989, there will be a sharp increase to 47.[illegible] percent due to the beginning of principal payments on certain FMS loans in that year. With a growing population, increasing trade deficits, a growing military budget (from [illegible] billion pounds in 1981-82 to 1.74 billion in 1982-83), and [illegible] world oil prices (Egypt is a net exporter), Egypt will experience serious debt service problems by 1987. Given the reluctance of international lenders, for example the World Bank, to extend new low interest credit to Egypt, the U.S. will likely remain a major Egyptian creditor.

In FY 1983, U.S. FMS loans will account for about 13.8 percent of Egypt's total foreign debt service burden. If no new foreign loans are obtained, the percentage will grow steadily to 28.3 percent in 1988, and will increase sharply to 33.0 percent

in 1989. It is clear the FMS debt service accounts for the majority of Egyptian debt service accruing to the U.S., and it accounts for a significant portion of total current debt service. Given the problems that Egypt will continue to have in obtaining foreign credits over the period 1983-88, U.S. FMS debt service will likely increase as a share of Egypt's total debt service burden. Details on Egyptian debt service are provided in Table 6.

As previously indicated, Egypt's debt service ratio will rise from its current 17.5 percent level. Exports will be aided somewhat by the falling value of the Egyptian pound in terms of dollars (5 percent decline per year through 1988), but even so, the debt service ratio will likely exceed 20 percent by 1987-88, if current trends continue.[26]

Fiscal Year	All External Debt[1,2] Principal	All External Debt[1,2] Interest	MILITARY: US FMS Loans Principal	MILITARY: US FMS Loans Interest	ECONOMIC: AID Loans Principal	ECONOMIC: AID Loans Interest	ECONOMIC: EX-IM Bank Loans[4] Principal	ECONOMIC: EX-IM Bank Loans[4] Interest	ECONOMIC: EXP Credit Loans Principal	ECONOMIC: EXP Credit Loans Interest	ECONOMIC: PL-480 Loans[3] Principal	ECONOMIC: PL-480 Loans[3] Interest
82	1436.0	520.0	-	-			-	-	-	-	-	-
83	1263.0	507.1	—	[illegible]4.8[illegible]	11.[illegible]	49.[illegible]	12.213[5]	1.693[5]			25.305	36.639
84	1284.9	480.8		3[illegible].500	12.163	52.700	24.987	8.829			25.305	32.254
85	1173.2	447.7		404.378	[illegible].520	53.669	25.080	6.214			25.305	31.499
86	1091.4	415.0		[illegible].122	15.939	54.560	24.961	5.140			25.305	30.744
8[illegible]	9[illegible].1	386.5		408.122	28.690	57.719	25.429	4.095			24.544	29.989
88	668.1	349.9		408.[illegible]	[illegible].518	63.792	17.165	3.169				
89	574.9	327.2	36.585	408.12[illegible]	49.[illegible]29	68.009	65.107[6]	6.482[6]				
90			[illegible].170	401.435	[illegible].361	[illegible].590						
[illegible]			86.570	392.543	65.8[illegible]	[illegible].327						

1As of December 1981.
2Public Debt Only, non-guaranteed.
3As of September 30, 1982.
4As of March 31, 1983, short-term FICA excluded.
5Calendar years, 1983 is three quarters only.
6For all 1989 entry and all subsequent years.

No FMS loan payments were made in FY 1982. For FY 1983 the interest amount shown includes $132.144 million in actual payments and $152.045 million in projected payments. Amounts for FY 1984 and subsequent years are projections.

Source: World Bank, U.S. Department of Defense, U.S. Treasury, June 1983.

TABLE 6
EGYPT: DEBT SERVICE ON EXISTING LOANS
(In Millions of U.S. Dollars)

	1980	1981	1982	1983	1984	1985	1986	1987	1988
Gross Fixed Investment	4.0	4.7	5.5	6.4	7.4	8.6	10.0	11.6	13.4
Percent Change	21.2	17.5	17.0	16.4	16.6	16.2	16.3	16.0	15.5
Government Expenditure	2.5	3.2	4.1	5.1	6.4	8.1	10.2	12.9	16.3
Percent Change	19.1	28.0	28.1	24.4	25.5	26.6	25.9	26.5	26.4
Private Consumption	10.3	13.9	17.4	21.2	25.9	31.6	38.6	47.5	57.0
Percent Change	19.8	35.0	25.2	21.8	22.0	22.0	22.0	23.1	20.0
Exports	4.3	4.5	4.4	4.2	4.7	5.2	5.8	6.9	8.2
Percent Change	30.3	4.7	-2.2	-4.5	11.9	10.6	11.5	19.0	19.0
Increase in Stocks	1.1	1.0	0.2	0.1	0.1	0.6	1.6	2.0	2.2
Imports	6.2	8.4	8.5	8.6	9.1	9.8	10.8	11.7	12.7
Percent Change	17.0	35.5	1.2	1.2	5.8	7.7	10.2	8.3	8.5
GDP	16.0	18.9	23.1	28.4	35.4	44.3	55.4	69.2	84.4
Percent Change	28.0	18.1	22.2	22.9	24.6	25.1	25.1	24.9	22.0

Source: International Monetary Fund, International Financial Statistics, August 1983; and Wharton estimates. Figures may not add due to rounding.

TABLE 7

EGYPT. GDP and Major Components, Calendar Years
(Billions of current Egyptian pounds)

	1980	1981	1982	1983	1984	1985	1986	1987	1988
MERCHANDISE (f.o.b.)									
Exports	3.9	4.0	[illegible]	[illegible]	3.9	4.2	[illegible]	4.9	5.1
Imports	-6.8	-7.9	7.8	[illegible]	-8.0	[illegible]	9.1	9.9	-10.7
Balance	-3.0	-3.9	[illegible]	[illegible]	-4.1	[illegible]	4.6	5.0	-5.6
SERVICES									
Exports	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Imports	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Balance	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CURRENT ACCOUNT	0.4	[illegible]	[illegible]	[illegible]	-2.4	[illegible]	[illegible]	[illegible]	3.3

Source: [illegible] Monetary Fund, [illegible] Financial Statistics [illegible] 1983; and [illegible] estimates. Figures may not add due to rounding.

[illegible] 8
EGYPT. Current Account
(Billions of U.S. Dollars)

THE FORECAST FOR EL SALVADOR

El Salvador's economy declined for the fourth consecutive year in 1982, leaving its real GDP 25 percent less than in 1978, the last year of relative stability. Armed conflict has disrupted economic activity and destroyed productive capacity, undermining investor and creditor confidence both domestically and abroad. External factors have exacerbated the internal problems. Worldwide recession and inflation, economic and political crisis in Central America, and the simultaneous rise in the price of oil imports and decline in prices of major exports have dealt the El Salvadorian economy multiple blows.

For nearly thirty years prior to 1979 the economy of El Salvador grew at an annual rate of [illegible] percent per year. This translates into an average annual rate of 2 percent per capita. Real GDP fell by an estimated [illegible].5 percent in 1979, 9.6 percent in 1980, 9.8 percent in 1981, and 5.5 percent in 1982. The growth in unemployment has paralleled the economic decline. Although only rough statistics are available, an unemployment rate of 12 percent was estimated for 1981 and 30 percent for 1982.

Consumer price increases accelerated from an estimated 12.5 percent per year in 1977 and 1978 to 15 percent for 1979 and 1980. Consumer prices were constrained to an 11.5 percent increase in 1981, as a result of wage and price controls and a tightening of monetary and fiscal policies.

The decline in economic activity has been broadly based. Gross private and fixed investment fell from a high of 23 percent of GDP in 1978 to 11 percent in 1982, as investor confidence eroded. Agricultural output, which represents one-fourth of GDP and over half of the country's employment, has been adversely affected by a number of factors. Coffee production has been crippled not only by world market conditions, but also by uncertainties about future land ownership and a spread of coffee rust disease. Guerilla attacks and adjustments to land reforms have had similar impacts on cotton and sugar production. Finally, drought conditions followed by torrential rains raised further havoc with basic crops such as corn, rice and beans in 1982.

Manufacturing, construction and commerce have been adversely impacted by similar external and internal factors. Production in these three sectors fell by 30 percent between 1978 and 1981. Poor economic conditions in general have combined with scarcity of foreign exchange, sabotage, and lack of security in crippling these factors. The U.S. Embassy estimated that interruption of electric power generation alone caused more than 50 million dollars in lost production in 1982.

The performance of the El Salvadoran external sector parallels that of the domestic scene. Although deficits in the current account began in the 1960s, their annual average was 2 percent of GDP and they were easily accommodated through capital

inflows. The sharp deterioration in the terms of trade beginning in 1978 coincided with the social unrest and productive capacity disruptions, suspension of commercial foreign credit facilities, and sizable capital outflows. The current account and balance-of-payment deficit of 132 million dollars in 1981 was financed by a 107 million dollar reduction in net official international reserves and an additional accumulation of 25 million dollars in payments arrears.

Foreign official financing expanded 45 percent in 1982; nevertheless, a severe foreign exchange shortage continues. The U.S. increased its assistance from 100 million dollars in 1981 to nearly 180 million in 1982. An IMF agreement in July 1982 pledged 85 million dollars in combined Standby/Compensatory Fund Facility loans for 1982. Negative export and private capital trends have nearly offset increases in foreign official and private capital trends have nearly offset increases in foreign official funding, however.

Racked by civil disturbances [illegible] government came to power and attempted to implement [illegible] range of policy changes which included agrarian re[illegible] nationalization of banks, and government controls over th[illegible] key exports, coffee and sugar. The [illegible] of the [illegible] was to distribute small parcel[illegible] to the [illegible] coupled with the [illegible] of [illegible] and

sugar exports, was aimed at redistribution surpluses and developing a dynamic manufacturing sector aimed at nonregional external markets. Prices of rice, beans, sugar, corn, medical services and medicine, and educational services were frozen in January 1981. Typical shortages accompanied those goods where compliance was widespread and such edicts were largely ignored in cases of basic foods and educational services. These far-reaching reforms have inadvertently compounded the country's economic difficulties. The junta began playing a major role in the economy in other ways, such as the major expenditures programs of the National Emergency Plan of 1980. In 1981, the government didn't completely abandon the plan, but it did launch an austerity program. In 1980 and 1981, the public sector for the first time, contributed more than one-half of fixed investment. The public sector deficit increased from an average of less than one percent of GDP in preceding years to 6 percent in 1980, 8.6 percent in 1981, and 7.5 percent in 1982. Additional details on El Salvador's public debt are provided in Table 9. An unfortunate outgrowth of the government's new economic activism has been a private sector more distrustful of the government and less willing to invest.[27]

Fiscal Year	All [illegible] Principal	All [illegible] Interest	MILITARY US FMS Loans Principal	MILITARY US FMS Loans Interest	ECONOMIC US AID Loans[3] Principal	US AID Loans[3] Interest	EX-IM Bank Loans[4] Principal	EX-IM Bank Loans[4] Interest	EXP Credit Loans Principal	EXP Credit Loans Interest	PL-480 Loans[3] Principal	PL-480 Loans[3] Interest
8[illegible]	[illegible]	1	-	-	-	-	-	-	-	-		-
[illegible]	[illegible]	[illegible]	[illegible]	3.717	1.633	3.141	1.876[5]	.520[5]				.6
[illegible]	[illegible]	[illegible]	[illegible]	7.766	1.711	3.636	[illegible].741	.304				.487
[illegible]	[illegible]	[illegible]	[illegible]	9.006	1.774	3.806	1.685	.168			.361	.487
[illegible]	[illegible]	[illegible]	[illegible]	8.989	1.656	3.769					.136	.569
[illegible]	12.[illegible]	[illegible]	4.[illegible]	3.653	1.545	3.727					1.295	.565
8[illegible]	13.[illegible]	[illegible]	[illegible]	8.005	1.572	3.692						
[illegible]	[illegible]	[illegible]	1[illegible]	6.357	1.704	3.651	1.041[6]					
[illegible]		[illegible]	1.[illegible]	5.597	2.869	3.632						
[illegible]	18.[illegible]	25.[illegible]	9.[illegible]	4.360	5.502	4.0[illegible]6						

[illegible] PL-480 excluded)

[5]Calendar years, 83 is last three quarters only.
[6]89 Entry for 1989 and all subsequent years
[7]These figures are based on World Bank data and may not be complete reflections of all debt. These data are intended as an indication of trend only.

TABLE 9
El Salvador: Debt Service on Existing Loans
(In Millions of US Dollars)

SOURCE: World Bank, U.S. Department of Defense, U.S. Treasury, June 1983.

THE FORECAST FOR HONDURAS

Honduras is the least developed of all Central American countries, and one of the poorest in the Western Hemisphere. In 1982, its GNP was 1.5 billion dollars, down 1.5 percent from the previous year. GNP is expected to grow about 1 percent or less in 1983. Below world average growth rates are expected for the period 1984-88.

In 1974, the Government of Honduras embarked on an ambitious five-year development plan, the primary objectives of which were to integrate the rural poor into the national economy and substantially increase social services in rural areas. The plan was relatively successful despite implementation problems. The present (1979-83) five-year plan continues this commitment. Significant investments are being made in infrastructure, including [illegible] tation, communications, and agrarian reform. Government expenditures for economic and social health more than doubled between 1974-78. In 1979-80, development programs accounted for [illegible] 40 percent [illegible] million dollar [illegible] budget.

In 1980 [illegible] leading exports were [illegible] 220 million [illegible] mil- [illegible] exports [illegible] million [illegible] 1980. Exports [illegible] were 808 [illegible], reflecting [illegible] downturn [illegible] of [illegible] to

change significantly over the period 1984-88.

Imports were valued at 956 million dollars in 1980 and 1087 million in 1981, consisting primarily of petroleum products, basic food grains, and machinery. Major trading partners for imports are the U.S., Venezuela, Guatemala, Japan, and Costa Rica. Imports exceeded exports by 121 million dollars in 1980, up from a deficit 27 million in 1979. The deficit was an even larger 2[illegible]9 million in 1981. For the future the deficit should decrease somewhat due to lower prices for petroleum imports and a slightly increased world demand for bananas, coffee, and wood.

Honduras consistently ran current account deficits in 1978 (5[illegible] million dollars), 1979 (192 million) and 1980 (320 million). A deficit also occurred in 1982 and one is expected in 1983.[28]

External public debt service now accounts for over 12.5 percent of GDP, and the percentage is growing. By 1982, major creditors included multilateral banks (over 1 billion dollars), private financial institutions [illegible]1971 million), and bilateral loans (389 million). U.S. Government assistance obligations in 1982 (loans and grants) amount to 112 million, up from 45 million in 1981.[29] Debt service ratios grew steadily in the decade of the 1970s to 12.6 percent in 1979. The ratio was down to 9.9 percent in 1980, but continued its upward trend in 1981, 82, and 83.

By February of 1980, the Government of Honduras had drawn 16 million dollars in Special Drawing Rights (SDRs) from the International Monetary Fund (IMF), which was the maximum allowable prior to July 1980. After that date, the IMF interrupted disbursements for a number of reasons, the most notable among these was an increase in Honduran Central Bank credit to the Government of Honduras at a rate exceeding the agreed-upon levels.

According to the U.S. Embassy in Honduras, it is difficult to produce accurate and timely data measuring the impact of the IMF program on basic human needs in Honduras. In general, Honduras experienced a sharp downturn in growth in 1982, largely due to a number of exogenous factors--high petroleum costs, the need to import basic grains, and reduced investor confidence. However, the Embassy believes that the IMF borrowings braked the decline, and prevented a bad situation from becoming worse. IMF financing permitted an extension of credit for grain production and the promotion of non-traditional exports, activities aiding small and medium-sized farmers. [illegible] increase spending for health, housing, and education. [illegible] program was also key in [illegible]

The U.S. Government share of Honduras' external public debt service is [illegible] small. [illegible] U.S. Government assistance loans, including [illegible] Export [illegible] and PL-480, will amount to [illegible] percent [illegible] total [illegible] external

public debt service in 1983. If no new loans are made, this share will grow to about 10.3 percent in 1988. Details are provided in Table 10.

In FY 1983, U.S. FMS loans will account for about 0.45 percent of total Honduran external public debt service. However, as grace periods on loans expire, the FMS share will grow to 5.3 percent in 1988, if no new loans are made. Again, details are provided in Table 10.

Forecasts of major economic and balance-of-payments indicators for the period 1983-88 are not available for Honduras. However, Table 11 provides recent historical data for certain indicators. In general, the available data and regional forecasts for Central America suggest that continued modest growth for export commodities and rising prices for imports after 1984 will result in continual pressure for Honduras to increase its external debt burden. Honduras will experience very modest GDP growth over the period 1984-88, and will experience increasing difficulty in managing its external debt service.[30]

Fiscal Year	All External Debt[1,2] Principal	Interest	US [illegible] Loans[7] Principal	Interest	US AID Loans[2] Principal	Interest	EX-IM Bank Loans[4] Principal	Interest	EXP Credit Loans Principal	Interest	PL-480 Loans[3] Principal	Interest
							E C O N O M I C					
82	42.2	48.7	[illegible]	1.308	-	-	-	-	-	-	-	-
83	90.6	[illegible]	.278	.578	[illegible]	3.604	4.261[5]	.877[5]			.844	.36
84	[illegible]	[illegible]	[illegible]	4.360	[illegible]	4.154	4.841	.582			.741	.332
85	[illegible]	[illegible]	[illegible]	[illegible]	1.485	4.446	2.840	.394			.741	.310
86	[illegible]	80.0	[illegible]	[illegible]	[illegible]	4.785	1.687	.307			.741	.288
87	[illegible]	[illegible]	[illegible]	4.230	2.172	4.966	1.116	.226			.741	.266
88	[illegible]	61.8	[illegible]	3.755	[illegible]	5.045	.988	.146				
89	[illegible]	[illegible]	[illegible]	3.105	2.503	[illegible]	25.859[6]	[illegible][6]				
90	[illegible]	[illegible]	[illegible]	2.455	3.468	5.160						
[illegible]	[illegible]	[illegible]	[illegible]	1.819	4 105	5.549						

[1]As of [illegible] 1981
[2][illegible] Debt Only
[3][illegible] September [illegible]
[4][illegible] [illegible] term FICA Excluded)

[5]Calendar years, 83 is last three quarters only
[6]89 Entry for 1989 and all subsequent years.
[7]As of June 15, 1983, FMS principal and interest amounts include actual payments for FY 1982 and for the first eight months of FY 1983, and projected payments for the last four months of FY 1983 and subsequent years.

[illegible] World Bank, Department of Defense, U.S. Treasury, June 1983.

TABLE 10
Honduras: Debt Service on Existing Loans
(In Millions of U.S. Dollars)

Calendar Year	1978	1979	1980	78-80 Average
GDP, BN 1975 US $	1.389	1.480	[illegible]	[illegible]
REAL GDP GROWTH %	6.5	6.6	[illegible]	[illegible]
GDP PER CAP 1975 US $	404	415	[illegible]	[illegible]
REAL GDP PER CAP GR %	2.8	3.0	[illegible]	[illegible]
GDP NOMINAL BN US $	[illegible]	[illegible]	[illegible]	[illegible]
GDP PER CAP NOM US $	526	604	[illegible]	[illegible]
INVESTMENT/GDP %	25.0	25.3	[illegible]	[illegible]
PRIV CONSUMPTION/GDP %	65.2	64.9	[illegible]	[illegible]
PRIMARY SECTOR GDP %	25.5	[illegible]	[illegible]	[illegible]
INDUSTRY/GDP %	20.1	[illegible]	[illegible]	[illegible]
SERVICES/GDP %	37.9	[illegible]	41.9	[illegible]
POPULATION GROWTH %	3.6	3.5	3.7	[illegible]
DEPENDENCY RATIO %				
URBAN POP/TOT POP %			36.0	
LITERACY RATE %				
% NOIL COMMDTY EX/EX %	23.4	27.3	27.4	[illegible]
EX TO 3 MAJ MRKTS/EX %				
EXTERNAL BALANCE AND LIQUIDITY				
MERCH EXPORTS, MN US $	[illegible]	[illegible]	[illegible]	737.0
EXPORT GROWTH %	18.2	[illegible]	[illegible]	16.4
MERCH IMPORTS, MN US $	[illegible]	[illegible]	955.9	[illegible]
IMPORT GROWTH %	[illegible]	19.7	[illegible]	[illegible]
EXPORT GR/IMPORT GR %	-0.7	[illegible]	-8.8	-3.1
TRADE BAL/EXPORTS %	-1.5	-4.5	[illegible]	[illegible]
CURR ACCT BAL, MN US $	-157.0	-198.5	[illegible]	-225.1
CURR ACCT BAL/GDP %	-8.7	-9.2	[illegible]	[illegible]
OIL IMPORTS/IMPORTS %	[illegible]	13.6	[illegible]	13.7
MTHS IM COV BY FX RES	[illegible]	.3	[illegible]	[illegible]
EXT PUB DEBT, MN US $	595.1	[illegible]	892.1	[illegible]
NET FOREIGN DEBT/GDP %	[illegible]	[illegible]	29.1	[illegible]
LOANS & FIN REQ MN US$	[illegible]	[illegible]	291.2	[illegible]
DEBT SERVICE RATIO %	8.4	[illegible]	[illegible]	10.3
IMF CREDIT/FX RES %	[illegible]	[illegible]	[illegible]	3.3
CR CREDIT/TOT CREDIT %	502.5	[illegible]	[illegible]	610.5
ECONOMIC POLICY AND MANAGEMENT				
CONSUMER PRICE INFLA %	[illegible]	[illegible]	[illegible]	[illegible]
REAL MONEY SUPPLY %	[illegible]	[illegible]	[illegible]	[illegible]
NET GOVT BUDGET/GDP %	[illegible]	[illegible]	[illegible]	[illegible]
NET FOREIGN ASSETS %	[illegible]	[illegible]	[illegible]	[illegible]
OVERVAL OF CURRENCY %	[illegible]	[illegible]	[illegible]	[illegible]

Table 11
Honduras - Major Economic and Balance-of-Payments
Indicators (Historical)

SOURCE: Chase Econometrics, 1982

THE FORECAST FOR INDONESIA

The prolonged worldwide recession and the resultant depressed commodity prices, particularly for oil, has exacerbated both the downturn in Indonesian economic activity and the progressive weakening of its external accounts position. In 1982, the current account deficit was a record 6.56 billion dollars, and deficits are expected to continue during the 1982-88 time frame. Domestically, the fall of export commodity prices has adversely affected Indonesian real incomes. Indonesia has also experienced a prolonged severe drought which has further depressed real incomes, particularly for the 60 percent of the work force in the agricultural sector

The short-term forecast indicates that the Indonesian GDP will only grow about 4 to 5 percent during 1983. Inflation will almost certainly rise in 1983 as a result of the total decontrol of food prices, a 40 percent rise in administered domestic fuel prices, and high import prices. Expected inflation (consumer price index) will be about 14 percent in 1983 compared to about 11 percent in 1982

Exports are forecast to increase about [illegible] percent in 1983, after dropping approximately 19 percent in 1982. The moderate upturn in the world economy in 1983 will aid Indonesia's commodity exports, particularly rubber, tin, and liquified natural gas. However, most of the recovery will not occur until late

1984, when expected increases in the world demand for oil will begin to affect Indonesia's oil exports.

Imports, constrained by higher prices for manufactured goods and government-imposed import barriers, will rise only about 3 to 4 percent in 1983, compared to a 9 percent rise in 1982. Thus, the 1983 trade surplus will be about 2.1 billion dollars, and the current account deficit should improve to 5.7 billion dollars, compared to 6.5 billion in 1982.

Over the period 1984-88, the prospects are somewhat brighter. GDP will grow at an average annual rate of 5 to 6 percent. Oil exports will begin to rise in 1984, predicated on an expected increase in worldwide oil demand. Sharp improvements in non-oil exports and sustained increases in government spending for development will aid the rebound beyond 1984.

Indonesia's exchange reserves will decline by approximately 600-1,200 million dollars in 1983, although expected depreciation of the rupiah will slow this drawdown somewhat. By year-end 1983, reserves are expected to be at a very low level. However, the government may allow its reserves to become extremely low in anticipation of a recovery in exports beginning in 1984.

Reflecting the desire to restore foreign creditor confidence with regard to future debt service payments, the Indonesian government budget for 1983-84 reflects the lowest increase in

expenditures in eight years. Compared to the previous year, government expenditures will increase by only 6.1 percent. As previously mentioned, the government has totally eliminated food subsidies, raised domestic fuel prices, and in addition, cut back in development spending.

Indonesia's economy is highly sensitive to world oil prices. Government revenue projections for the 1983-84 budget are based on a 34 dollar per barrel oil price and an average production level of 1.4 billion barrels a day. Given the strong likelihood of a world benchmark oil price of less than 29 dollars per barrel, Indonesia's planned government expenditures for 1983-88 may have to be reduce even further to be consistent with lower than expected revenues.

Lower world oil prices and subsequent lower government revenues will have a dampening effect on Indonesia's GDP, growth in the oil sector, and in manufacturing, construction, utilities, and services. Also, if higher government deficits due to lower revenues are financed by foreign loans, the debt service burden would increase causing an additional rise in foreign loan interest rates, a further decline in the value of the rupiah, and increased domestic inflation.

At 6 percent of GDP, the 198[illegible] current account deficit will require additional short- and long-term foreign financing. Mor-

gan Guaranty Trust is presently organizing a 1.0 billion dollar syndicated bank loan, while the U.S. Ex-Im Bank has offered 700 million dollars in specific project aid. The terms of the 1.0 billion dollar loan are more expensive than Indonesia is used to--an eight-year, rather than a 10-year maturity, and 0.5 percent above the London Interbank Overseas Rate (LIBOR), rather than the usual 0.375 percent above LIBOR. Also, a part of the loan is tied to the U.S. prime rate, which is expected to increase during 1984. However, there is sharp competition for the loan's management, suggesting that Indonesia should be able to continue to secure funds in the immediate future.

The U.S. Government portion of the Indonesian foreign public debt service burden is relatively small.[31] Total U.S. Government assistance loans, including FMS, AID, Ex-Im Bank, Export credit, and PL-480 will amount to about 7.5 percent of total Indonesian public debt service in 1983. If no new loans are obtained, debt service to the U.S. Government will grow to about 9.4 percent in 1984 and will decline thereafter, reaching 2.9 percent in 1988. If we consider both public and private Indonesian debt service, the U.S. Government share is even smaller. Details on debt service and other economic indicators are provided in Tables 12 through 16.

In FY 1983, U.S. FMS loans will amount to about 1.5 percent of the Indonesian foreign debt service burden. If no new U.S.

FMS loans are made, this percentage will decline steadily, reaching .4 percent in 1988.

Forecasted debt service ratios are provided in Table 15. The ratio drops from 12.0 percent in 1983 to about 11.8 percent in 1985, and then increases to about 14.0 percent in 1988. These forecasts are contingent upon the forecasted growth in the Indonesian economy which, in turn, is highly sensitive to anticipated growth in oil exports after 1984. If Indonesian oil exports do not grow and if world oil prices do not stay above 25 dollars per barrel, the Indonesian Government will likely have to increase its foreign borrowings to make up for less than expected oil revenues.[32]

Fiscal Year	All External Debt[1,2] Prin	All External Debt[1,2] Interest	MILITARY: US FMS Loans[7] Prin	MILITARY: US FMS Loans[7] Interest	ECONOMIC: US AID Loans[3] Principal	US AID Loans[3] Interest	Ex-Im Bank Loans[4] Principal	Ex-Im Bank Loans[4] Interest	EXP Credit Loans Prin	EXP Credit Loans Interest	PL 480 Loans[3] Prin	PL 480 Loans[3] Interest
1982	[illegible]	1126.[illegible]	20.354	13.579	--	--	--	--	--	--	--	--
1983	[illegible]542.4	119[illegible].2	24.224	14.124	8.790	16.555	51.0515[5]	18.2345[5]	0	0	27.964	26.210
1984	[illegible]	1296.6	23.342	[illegible]	10.278	19.153	76.897	59.152			31.799	28.935
1985	[illegible]	1346.6	26.014	12.5[illegible]	12.091	20.329	81.998	51.046			41.313	30.518
1986	[illegible]2.2	1224.3	26.014	9.676	13.028	20.677	81.690	44.714			41.313	31.427
1987	[illegible]	1272.6	22.934	6.885	14.292	20.972	75.568	38.177			41.313	32.027
1988	[illegible].2	[illegible]	17.605	4.424	15.022	20.851	75.229	31.950				
1989	[illegible].5	1036.7	11.334	2.447	15.926	20.694	305.2626[6]	93.1656[6]				
1990	[illegible]	997.2	7.334	1.181	18.685	20.532						
1991	[illegible]	75[illegible]	5.334	.448	20.313	20.814						

[1]As of December 198[illegible].
[2][illegible] Debt Only.
[3]As of September 3[illegible], 198[illegible].
[4]As of March 3[illegible], 198[illegible] (Short-Term FICA Excluded).

[5]Calendar years, 1983 is last three quarters only.
[6]For all 1989 entry and all subsequent years.
[7]As of June 15, 1983 for all FMS.

Source: World Bank, U.S. Department of Defense, U.S. Treasury, [illegible]

TABLE 12
INDONESIA: DEBT SERVICE ON EXISTING LOANS
(In Millions of U.S. Dollars)

Calendar Year	78	79	80	81	82	83	84	85	86	87	88
TRILLIONS OF 1973 Rupiahs											
GROSS DOMESTIC PRODUCT	9.48	9.99	10.95	11.78	12.31	12.90	13.76	14.53	15.30	16.17	17.10
OUTPUT: AGRICULTURE	3.13	3.26	3.44	3.57	3.64	3.68	3.86	4.02	4.14	4.31	4.48
OUTPUT: MANUFACTURING	1.18	1.30	1.57	1.76	1.88	1.96	2.09	2.22	2.35	2.50	2.67
OUTPUT: SERVICES	3.54	3.76	4.21	4.61	4.95	5.28	5.62	5.93	6.27	6.66	7.11
PRIVATE CONSUMPTION	6.90	7.58	8.29	9.06	9.67	10.15	10.75	11.38	12.03	12.72	13.45
GOVERNMENT CONSUMPTION	1.23	1.35	1.67	1.90	2.00	1.94	1.96	2.01	2.04	2.10	2.18
GROSS CAPITAL FORMATION	2.33	2.44	2.87	3.30	3.57	3.85	4.22	4.56	4.92	5.33	5.77
MONEY SUPPLY, M1 (BILL. RUPIAHS)	2270.1	2982.8	4278.4	5674.6	7207.7	8806.7	10889.0	13403.7	16690.8	20638.2	28826.3
AGGREGATE DEMAND											
PRIVATE CONSUMPTION	6.90	7.58	8.29	9.06	9.67	10.15	10.75	11.38	12.03	12.72	13.45
GOVERNMENT CONSUMPTION	1.23	1.35	1.67	1.90	2.00	1.94	1.96	2.01	2.04	2.10	2.18
GROSS CAPITAL FORMATION	2.33	2.44	2.87	3.30	3.57	3.85	4.22	4.56	4.92	5.33	5.77
EXPORTS OF GOODS AND SERVICES	1.78	1.76	1.60	1.62	1.60	1.57	1.72	1.84	1.97	2.06	2.18
IMPORTS OF GOODS AND SERVICES	2.75	3.13	3.56	3.91	4.16	4.33	4.59	5.18	5.59	5.91	6.10
AGGREGATE SUPPLY											
VALUE-ADDED:											
AGRICULTURE	3.13	3.26	3.44	3.57	3.64	3.68	3.86	4.02	4.14	4.31	4.48
MINING	1.08	1.05	1.03	1.03	0.94	1.00	1.12	1.21	1.30	1.36	1.39
MANUFACTURING	1.18	1.30	1.57	1.76	1.88	1.96	2.09	2.22	2.35	2.53	2.67
CONSTRUCTION	0.53	0.56	0.63	0.74	0.81	0.88	0.97	1.05	1.12	1.43	1.33
UTILITIES	0.06	0.07	0.08	0.08	0.09	0.09	0.10	0.10	0.11	0.11	0.12
SERVICES	3.54	3.76	4.21	4.61	4.95	5.28	5.62	5.93	6.27	6.66	7.11
ANNUAL PERCENTAGE CHANGES											
GROSS DOMESTIC PRODUCT (NOMINAL)	18.1	38.1	41.1	29.2	15.8	20.1	22.1	20.6	21.7	16.8	18.6
GROSS DOMESTIC PRODUCT (REAL)	6.9	5.3	9.7	7.6	4.5	4.8	6.7	5.6	5.3	5.7	5.8
PRIVATE CONSUMPTION	7.2	9.9	9.3	9.4	6.6	5.0	5.9	5.9	5.7	5.8	5.7
GOVERNMENT CONSUMPTION	17.6	9.5	24.1	14.0	5.2	-3.2	1.1	3.3	1.6	3.0	3.9
GROSS CAPITAL FORMATION	18.1	4.4	17.8	15.2	8.1	7.9	9.5	8.2	7.9	8.4	8.2
EXPORTS OF GOODS AND SERVICES	1.9	-1.0	-4.2	-4.1	-7.5	5.3	9.0	7.4	6.8	4.7	6.0
IMPORTS OF GOODS AND SERVICES	15.6	13.9	13.6	10.0	6.3	4.0	6.0	12.9	7.8	5.8	3.2
VALUE-ADDED:											
AGRICULTURE	5.1	4.0	5.5	3.7	2.1	1.0	5.0	4.0	3.0	4.1	4.0
MINING	-2.0	-8.2	-1.2	-0.7	-8.8	6.9	12.2	7.8	7.4	4.6	2.6
MANUFACTURING	11.2	10.1	21.1	12.2	7.0	4.3	6.3	6.3	6.0	6.4	6.7
CONSTRUCTION	14.0	6.4	11.7	17.6	10.2	8.5	9.3	5.5	8.0	8.3	8.2
UTILITIES	16.1	20.6	13.6	7.4	3.0	4.0	7.8	6.4	5.6	5.9	8.6
SERVICES	8.9	6.2	12.0	9.6	7.4	6.7	6.6	5.4	5.7	6.3	6.7

Table [illegible]: Indonesia: Major Economic Indicators Forecast

Source: Chase Econometrics, January 1983

MILLIONS OF US $

CURRENT ACCOUNT:											
EXPORTS OF GOODS, FOB	7,925.0	[illegible]	[illegible]	[illegible]	18987.3	20500.7	23612.5	27278.6	31382.5	35651.6	40080.0
EXPORTS OF PETROLEUM	7452.5	8876.0	12458.5	[illegible]	11479.7	12168.6	13728.0	15397.0	17489.6	19886.2	21076.6
EXPORTS OF RUBBER	716.5	956.	[illegible]	775.8	774.7	907.9	1126.6	1426.7	1873.0	2202.6	2865.7
EXPORT OF PALM OIL	288.	2[illegible].6	74.	38.6	74.3	82.6	105.2	142.0	180.3	209.9	269.4
EXPORTS OF WOOD	995.0	1795.2	942.5	470.9	644.6	690.4	784.5	907.4	942.1	1009.6	1106.0
EXPORTS OF TIN	796.3	404.	[illegible]	44.	412.9	463.9	545.3	616.5	679.8	760.9	837.2
EXPORTS OF OTHER GOODS	1378.3	2940.9	[illegible]54.6	6[illegible].0	6590.6	6187.7	7220.3	8588.3	10237.9	11676.8	13966.1
IMPORTS OF GOODS, FOB*	8386.0	9246.0	[illegible]	16590.0	17811.6	18388.2	20485.8	22834.2	24600.3	26255.9	29416.5
OIL SECTOR IMPORTS	2602.2	2812.7	2455.	4434.8	4431.1	4312.5	4589.1	4740.6	4828.3	3948.5	4486.0
CIF IMPORTS**:											
IMPORTS OF CONSUMPTION GOODS	1196.6	1182.2	1543.4	2351.1	1272.9	1373.0	1476.2	1620.4	1710.2	1889.2	2058.4
IMPORTS OF CAPITAL GOODS	2879.2	2691.9	4453.4	4783.8	6476.6	7008.2	8232.7	9650.6	11138.6	12702.6	14714.1
IMPORTS OF RAW MATERIALS	2564.8	3.28.3	6307.6	6106.4	6638.3	6754.0	7417.5	8162.5	8731.9	9297.8	10120.8
TRADE BALANCE	3649.0	5909.0	9186.0	6810.0	1169.0	2112.5	3126.6	4444.4	6762.2	9298.1	10686.4
NET SERVICES, DEBIT	-6077.0	-4939.0	-6386.0	-7433.0	-7792.9	-7935.1	-8517.3	-9178.3	-9667.0	-10712.6	-11660.1
SHIPPING, TRAVEL, TRANS., CRD	176.0	224.0	289.0	364.3	379.5	408.6	443.0	494.7	551.7	611.3	672.6
SHIPPING, TRAVEL, TRANS., DEB	1643.6	1884.8	2087.0	2829.0	2847.7	2676.8	2910.9	2908.3	2990.9	3376.6	3016.3
EARNINGS ON DIR. INVEST, DEB	1940.6	2319.9	3236.4	3036.3	2840.7	2766.2	3044.2	3356.7	3419.7	3889.9	4303.5
NET OTHER SERVICES, DEBIT	849.9	1177.0	1467.7	2129.0	2486.0	2899.6	3006.0	3537.0	3789.0	4060.0	5012.0
PUBLIC INTEREST PAYMENTS	513.8	770.8	835.0	869.8	1043.4	1397.0	1338.3	1384.7	1403.3	2282.7	3019.1
UNREQUITED TRANSFERS, NET	16.0	33.0	63.0	68.0	60.5	43.6	33.0	30.0	24.0	18.0	26.0
CURRENT ACCOUNT BALANCE	-2414.0	973.0	2839.0	-735.0	-6563.1	-5780.6	-5358.6	-6719.9	-2641.7	-1397.3	-657.7
CAPITAL ACCOUNT:											
FOREIGN DIRECT INVESTMENT	279.0	226.0	184.0	133.0	186.3	198.6	200.0	230.0	350.0	400.0	500.0
AMORTIZATION	1548.3	1329.8	352.7	1201.1	1305.2	1255.1	1505.1	1841.6	2300.7	2704.6	3282.7
ERRORS AND OMISSIONS	-133.0	-402.0	-1931.0	-1407.0	-20.0	-306.	-100.0	-950.0	-1400.0	-600.0	-500.0
BALANCE OF PAYMENTS	117.0	1436.0	1330.0	-378.0	-1750.0	-980.9	700.0	900.6	950.0	900.0	800.0
LOAN AND FINANCING REQUIREMENTS	3933.3	1961.0	1179.7	3032.1	6982.2	6243.7	7461.6	8174.5	7142.4	6801.9	4860.3

DEBT POSITION

TOTAL PUBLIC DISBURSED DEBT	13107.3	13233.2	14940.3	15735.0	17832.1	19923.[illegible]	23001.2	27212.2	29653.0	31251.2	31900.6
PUBLIC DEBT SERVICE RATIO	16.7	13.9	8.2	8.9	12.4	[illegible]	11.7	11.0	13.1	14.0	14.0
INTEREST RATE, EURO DOLLAR	9.1	12.1	13.0	16.7	13.4	9.[illegible]	9.3	10.4	8.8	8.0	7.9

EXCHANGE RATE

RUPIAHS PER U.S.$	442.1	623.1	627.0	631.8	661.4	735.0	790.0	835.0	900.0	935.0	960.0
END OF YEAR	420.0	627.0	627.3	638.9	686.5	775.0	820.0	850.0	925.0	950.0	970.0

Source: Chase Econometrics, January 1983.

TABLE 14

INDONESIA: BALANCE OF PAYMENTS F[illegible]

[illegible]	78	79	80	81	82	83	84	85	86	87	88
BALANCE OF PAYMENTS (MILL. US $)											
[illegible]	11035.0	15154.0	21757.0	23410.0	18981.3	20500.7	23612.5	27278.6	31382.3	35653.8	40080.9
[illegible]	8334.0	9245.0	12603.0	16590.0	17811.6	18388.2	20435.8	22834.2	24600.3	26255.7	29416.8
[illegible]	2649.0	5909.0	9154.0	6820.0	1169.8	2112.5	3176.8	4444.4	6782.2	9398.1	10664.4
[illegible]	-3415.0	975.0	2599.0	-736.0	-6563.3	-5780.6	-5353.6	-4730.9	-2841.7	-1297.3	-857.7
[illegible]	13137.2	13233.3	18940.3	15735.0	17832.1	19922.7	23081.3	27212.1	29653.6	31261.2	31908.8
[illegible]	445.08	623.05	627.00	631.76	661.40	735.00	790.00	835.00	900.00	935.00	960.00
[illegible] YEAR	625.00	627.02	627.32	638.86	666.50	775.00	820.00	850.00	925.00	950.00	978.1
ANNUAL PERCENTAGE CHANGES											
GROSS DOMESTIC PRODUCT	6.9	5.3	9.7	7.6	4.5	4.8	6.7	5.6	5.3	5.7	5.8
OUTPUT: AGRICULTURE	5.1	4.0	5.5	3.7	2.1	1.0	5.0	4.0	3.0	4.1	4.0
OUTPUT: MANUFACTURING	11.3	10.1	21.1	12.2	7.0	4.3	6.3	6.3	6.0	6.4	6.7
OUTPUT: SERVICES	8.9	6.2	12.0	9.6	7.4	6.7	6.6	5.4	5.7	6.3	6.7
[illegible]	7.2	9.9	9.3	9.4	6.6	5.0	5.9	5.9	5.7	5.8	5.7
[illegible]	17.6	9.5	24.1	14.0	5.2	-3.2	1.1	2.3	1.6	3.0	3.9
[illegible] CAPITAL [illegible]	15.1	4.4	17.8	15.2	8.1	7.9	9.5	8.2	7.9	8.4	8.2
[illegible]	18.9	31.4	43.4	32.6	27.0	22.3	23.3	23.4	24.5	23.6	23.9
[illegible]	8.4	21.9	18.5	12.2	10.9	14.6	14.3	14.7	16.6	13.4	13.0
[illegible]	9.8	27.0	17.1	7.1	9.9	14.4	14.4	15.0	14.0	13.0	12.0
[illegible] DEFLATOR	20.8	31.1	28.7	20.1	10.8	14.6	14.4	14.2	15.6	12.4	12.1
[illegible] OF GOODS	2.5	37.3	43.6	7.6	-18.9	8.0	15.2	15.5	15.0	13.6	12.4
[illegible] OF GOODS	12.1	10.2	36.3	31.6	7.4	3.2	11.4	11.5	7.7	6.7	12.0
[illegible] RATE	6.8	40.9	0.6	0.8	4.7	11.1	7.5	5.7	7.8	3.9	2.7
[illegible]	30.6	0.5	0.0	1.8	7.5	12.9	5.8	3.7	8.8	2.7	2.1

[illegible]esia: Balance of Payments Forecast

[illegible] Econometrics, January 1983

AD-A149 811 AN ECONOMIC ANALYSIS OF UNITED STATES ASSISTANCE TO SELECTED LESS DEVELOPED COUNTRIES(U) AIR FORCE ACADEMY CO W J WEIDA ET AL. JUL 83 USAFA-TR-84-10 2/3

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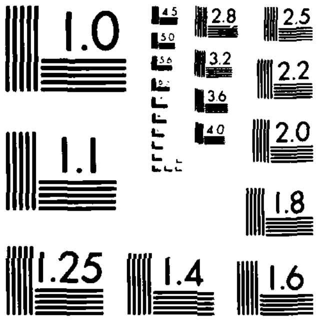

MICROCOPY RESOLUTION TEST CHART

NATIONAL BUREAU OF STANDARDS 1963 A

ANNUAL PERCENTAGE CHANGES

EXPORTS OF GOODS, FOB	2.5	37.2	43.4	7.4	-18.9	8.0	14.2	15.5	15.0	13.6	12.4
EXPORTS OF PETROLEUM	1.9	39.3	45.0	15.5	-22.9	6.0	12.6	12.2	13.6	13.2	4.4
EXPORTS OF RUBBER	21.5	30.7	34.6	-28.9	-6.0	16.6	35.3	32.4	15.1	17.6	29.2
EXPORTS OF PALM OIL	13.7	-2.1	34.6	-65.3	-15.4	10.3	27.7	28.7	12.1	21.1	18.6
EXPORTS OF WOOD	4.3	80.6	3.1	-63.0	-3.0	7.1	13.6	15.7	3.0	7.2	9.5
EXPORTS OF TIN	14.3	41.3	26.1	-13.5	-7.1	12.4	17.5	13.0	10.3	10.3	11.8
EXPORTS OF OTHER GOODS	-6.6	111.6	72.6	28.1	-14.5	10.7	16.7	18.9	19.2	14.1	19.6
IMPORTS OF GOODS, FOB	12.1	10.2	36.3	21.6	7.4	3.5	11.4	11.6	7.7	4.7	12.0
IMPORTS OF CONSUMPTION GOODS	8.2	-1.2	30.6	-12.5	-5.0	7.9	7.4	9.9	5.5	10.5	9.0
IMPORTS OF CAPITAL GOODS	5.5	-4.9	66.6	39.0	11.9	8.2	17.5	17.2	15.6	14.0	15.5
IMPORTS OF RAW MATERIALS	8.4	24.9	44.5	27.0	8.7	1.7	9.8	10.0	7.0	7.6	7.7
NET SERVICES	-21.4	-21.6	-28.2	-19.9	-2.2	-1.0	-7.3	-7.7	-5.2	-11.0	-7.9
SHIPPING,TRAVEL,TRANS., CRD	28.0	23.1	29.0	26.1	4.2	5.6	10.8	11.8	11.5	10.0	10.1
SHIPPING,TRAVEL,TRANS., DEB	10.2	10.2	31.4	25.6	0.1	-6.0	8.8	3.7	0.1	-3.9	4.9
EARNINGS ON DIR.INVEST,DEB	20.3	22.6	35.7	-4.9	-6.4	-2.8	10.3	10.3	1.9	13.7	8.0
NET OTHER SERVICES, DEBIT	54.0	30.7	7.7	67.9	14.7	14.7	3.7	10.7	12.9	20.3	9.9
XCHANGE RATE	6.5	40.9	0.6	0.8	4.7	11.1	7.5	5.7	7.6	3.9	3.7
DEC. AVERAGE, 12-MONTH RATE	30.6	9.3	0.0	1.0	7.3	13.9	5.8	3.7	8.8	3.7	3.1

*IMPORTS MAY NOT TOTAL DUE TO UNREPORTED "OIL SECTOR" IMPORTS

Source: Chase Econometrics, January 1983.

TABLE 16
INDONESIA: BALANCE OF PAYMENTS FORECAST

THE FORECAST FOR ISRAEL

For the first time since 1953, Israeli economy failed to record any real growth during 1982. This was in contrast to a 4.2 percent increase in real GDP in 1981 and a 2.7 percent increase in 1980. Available production statistics for 1983 indicate a continued period of stagnation. Prices are currently rising at a 150 percent rate surpassing the 1982 rate of 131.5 percent. Prices rose 101.5 percent in 1981 and at a record-breaking 132.9 percent in 1980. A major factor in this year's inflation has been higher costs of fruit and vegetables as a result of the harsh winter weather. Higher real labor costs resulting from the January wage agreements have also exerted cost-push inflation pressures. The managed unemployment rate of 5 percent in 1982 has been the most widely touted aspect of the Israeli economy. The finance ministry has been citing an unemployment rate of 3.6 percent in recent months. While this rate seems inconsistent with production figures, it is a possible response to expectations regarding the general upturn in the economies of Western Europe and the U.S.

During 1982, domestic defense consumption rose by more than 13 percent in real terms due primarily to the invasion of Lebanon. Overall government consumption fell by 3 percent. Personal consumption increased by 6.8 percent and investment rebounded after two years of negative growth to grow by 6 per-

cent. Perhaps the best demand news was that plant and equipment expenditures increased for the first time since 1975. This may have been a result of a change in tax laws. The stagnant capital stock base of Israel has been a constraining factor on her economic performance. Real gross domestic capital formation is estimated to have been 5 percent lower in 1982 than in 1971, while real private consumption expenditures were 83 percent higher and real government consumption expenditures were 44 percent higher. Preliminary data for 1983 suggest investment in general is up primarily in equipment but not plant construction or housing. Finance, trade and services account for a third of the nation's business GDP. Industry mining and quarrying represent 30 percent followed by transportation and communications at 14 percent and agricultural and agricultural-related at 10 percent.

The external sector accounted for a considerable portion of Israel's dismal economic performance in 1982. Exports fell in real terms by 5 precent while imports continued to increase at a rate of 8 percent. The Israeli trade deficit rose by 23 percent during the first six months of the year. Again, exports have fallen by 6 percent and imports rose by 4 percent. The trade deficit for the first half of 1983 is estimated to be 1.68 billion dollars compared to 1.36 billion dollars in 1982. It may run as high as 3.5 billion for the entire year. Sizeable

declines in agricultural exports led this trend. Industrial exports, which had been experiencing strong growth, declined by 5 percent over the same period in 1982. Metals, machinery, and electronic sector declines overwhelmed increases in the minerals, diamonds and miscellaneous sectors. Industrial exports have been one of the leading sectors and are vital to the long-run extended health of Israel.

The continued strength of the dollar relative to European currencies continues to hold down the nominal value of Israeli exports. The Israeli policy of slowing the depreciation of the shekel has also been a contributing factor. Imports have been led by a sizeable increase of 27 percent in consumer imports during the first half of 1983. Regarding the services balance, a preliminary estimate of 3 percent over the 1982 levels for tourism is suggested; however, 1982 tourism was well below 1981 levels. Israel's current account deficit as a percentage of GNP has risen from 12.6 percent in 1977 to 17.3 percent in 1982. Preliminary estimates by the Bank of Israel include an increase of 300 million dollars in the current account deficit to a level of 5 billion for 1983. Debt service as a percentage of current exports has increased from 19.5 percent in 1980 to 23.7 percent in 1982. Similar figures are expected for 1983.

Government officials in Israel are constrained in using conventional fiscal and monetary policies since three-fifths of the

Israeli budget is obligated to defense and debt servicing. Twenty-five to 30 percent of Israel's total budget goes for defense outlays. This, as well as the legally mandated debt servicing, is nearly impossible to trim; however, the Israeli cabinet recently approved a 16 billion-shekel reduction in current and future defense budgets, 8.5 during FY 1983 and 3.75 in FY 1984 and FY 1985. In December 1983, the U.S. Government was approached to offset these reductions. Press reports suggest total "cuts" of upwards to 40 billion shekels are expected. Actually new or increased taxes are appearing as opposed to actual cuts in programs. Press reports are suggesting the overall fiscal impact to be a reduction in the budget deficit of 30 billion shekels. Actual results of the budgetary debates are not yet clear, but a 10 percent reduction in the overall operating budget has been suggested.

Monetary policy in Israel is essentially non-existent. Israeli law requires that the Bank of Israel fund the budget deficit by printing money. The central bank therefore cannot effectively control the money supply. Furthermore, Israelis hold a broad range of very liquid financial assets. The fight against inflation is also hampered by the fact that a cardinal rule of Israeli economic policy is that unemployment is not tolerated. Unemployment in Israel is more than a political issue but also has deep moral roots since the state is built on the immigration

of Jews from around the world. The complex linkage system of indexing prices and wages is very embedded in the Israeli system. While this system provides some protection to the majority of Israeli citizens from the pain of inflation, it also hinders the ability of policy makers to combat inflation.

Total U.S. Government assistance loans, including FMS, AID, Ex-Im Bank, Export Credit, and PL-480, will amount to about 65.7 percent of total Israeli external public debt in FY 1983. In FY 1983, U.S. FMS loans will be about 53.7 percent of Israeli external public debt. Details are provided in Table 17.

Early 1983 information suggests little improvement in Israel's overall economic activity. As exports continue to decline and imports continue to increase, the balance of payments deficit will worsen. Despite the balance-of-payments situation and unsettled capital markets, Israel's access to international borrowing does not appear to be weakening. Inflation continues to be a problem despite apparent efforts to improve the government's budgetary deficit. Israel has turned to the U.S. for increased economic assistance and greater concessionality for FMS loans as methods for easing her economic woes.[33]

Fiscal Year	All External Debt[1,2] Prin	All External Debt[1,2] Interest	MILITARY: US FMS Loans Prin	MILITARY: US FMS Loans Interest	ECONOMIC: US AID Loans[3] Principal	ECONOMIC: US AID Loans[3] Interest	ECONOMIC: Ex-Im Bank Loans[4] Principal	ECONOMIC: Ex-Im Bank Loans[4] Interest	ECONOMIC: EXP Credit Loans Prin	ECONOMIC: EXP Credit Loans Interest	ECONOMIC: PL 480 Loans[3] Prin	ECONOMIC: PL 480 Loans[3] Interest
1982	1013.9	827.7	--	--	--	--	--	--	--	--	--	--
1983	741.2	794.6	111.332	713.818	12.707	27.627	99.792	19.188[5]	0	2.298	17.338	5.291
1984	825.2	741.9	100.163	805.860	12.511	27.173	62.000	37.255	1.772	2.246	16.977	4.612
1985	680.3	671.3	95.118	819.035	9.341	26.730	73.660	35.826	2.189	1.994	16.977	4.125
1986	831.4	623.0	89.925	817.484	4.279	26.454	61.602	36.445	2.189	1.706	16.977	3.621
1987	603.2	565.0	125.290	811.786	10.153	27.405	58.344	37.361	2.189	1.419	16.977	3.127
1988	547.4	532.1	161.875	803.126	12.505	30.862	84.794	37.448	2.189	1.132		
1989	606.9	495.6	239.924	791.840	24.280	31.763	620.133[6]	158.912[6]	2.189	.844		
1990			317.973	767.814	30.361	36.080			2.189	.557		
1991			356.903	737.234	31.318	36.445			2.188	.270		

[1]As of December 1981.
[2]Public Debt Only.
[3]As of September 30, 1981.
[4]As of March 31, 1983, (Short-Term FICA Excluded).
[5]Calendar years, 1983 is last three quarters only
[6]For all 1989 entry and all subsequent years.

TABLE 17
ISRAEL: DEBT SERVICE ON EXISTING LOANS
(In Millions of US Dollars)

SOURCE: World Bank, U.S. Department of Defense, U.S. Treasury, June 1983.

THE FORECAST FOR LIBERIA

Liberia has suffered from structural difficulties since 1974 as a result of sluggish world demand for its major exports and rising internal production costs that reflect the energy intensiveness of its mining industry. Moreover, the Liberian Government has had difficulty financing its budget deficits in recent years, as its ability to increase domestic revenues has not kept pace with rapidly growing expenditures, which in 1978/79 included extraordinary costs associated with the Organization of African Unity Summit meeting. Since 1980, recurrent expenditures have risen as the new government announced a number of economic measures, including salary increases for the lowest-paid government employees. Nevertheless, the budget deficit, which has been as high as 14 percent of GDP in 1978/79, declined to 8 percent of GDP in 1980/81, owing in large part to substantially increased economic assistance from the United States and other donors. Political disturbances in early 1979 and the revolution of April 1980 led to a substantial net outflow of capital, and while confidence in Liberia is improving, this has not yet led to any significant new investment in the country. External credit sources remain cautious in lending to both public and private sectors; this, and the exhaustion of external assets of the banking system, especially the National Bank, has led to a severe credit squeeze.

After increasing for a number of years, Liberia's total recorded exports (including re-exports) declined in 1981 as earnings from rubber, coffee and diamonds turned downward. Recorded imports also declined, but by a lesser amount. This reduction in imports is attributed to a depressed economy and also to a drop in imports of crude petroleum and products arising from the uneven arrival of shipments. The net services deficit widened further, partly because of higher interest payments on the external debt.

The balance-of-payments outlook continues to be uncertain. Exports are expected to increase as a result of larger shipments of iron ore and coffee, while imports should rise because of greater confidence in the economy and a bunching of petroleum shipments. Service payments will continue to rise as interest payments on Liberia's foreign debt increase, while net receipts of unrequired transfers will remain at a high level as a result of the maintenance of maritime revenue and U.S. economic aid. Nevertheless, the current account deficit is expected to increase in 1983.

In spite of a 16 percent increase in earnings from iron ore, Liberia's principal export, the total value of merchandise exports declined by 1 percent in 1981 because of lower earnings from all the other major exports. The overall shortfall was primarily due to lower prices, but lower volumes were largely

responsible for the shortfall in earnings from wood exports and to a lesser extent for the shortfall in earnings from coffee. The slump in the European timber market resulting from a sharp downturn in the construction industry was the main case of the fall in the volume of wood exports. The shortfall in earnings from coffee was caused by declining world coffee prices as well as by a fall in the volume of exports due to lower domestic production and a reduction in the inflow of coffee for re-export from neighboring countries. Price factors were entirely responsible for the shortfall in diamonds and largely responsible for that in rubber.

Between 1976 and 1979, official debt to foreign financial institutions rose from 10.5 million U.S. dollars to 133.4 million dollars. Over the same period, commercial banks' share of outstanding official external debt rose from a negligible proportion to 19 percent of the total.

Following the internal unrest in 1979 and 1980, business confidence waned and there was substantial transfer of funds abroad. At the same time, a number of foreign banks froze or reduced their credit lines to Liberian clients, including the government. Attempts at controlling capital flight proved ineffective, and a severe liquidity squeeze ensued. Except for 1.6 million dollars of arrears which were included in the private December debt renegotiation, all arrears were eliminated in FY 1981/82. However,

during the second half of 1982 new arrears were accumulated, mainly on payments to financial institutions which had participated in refinancing of petroleum imports.

The commercial bank debt restructuring provided about $13 million dollars in debt relief in 1981/82. This lowered projected debt service from 17 percent of projected exports to about 13 percent.

Liberia has concluded two reschedulings with its Paris Club creditors, the first in December 1980 and the second in December 1981. The first covered 90 percent of principal and interest due between July 1, 1980 and December 31, 1981, and the second 90 percent of principal and interest falling due between January 1, 1982 and June 30, 1983. The first loan had a four-and-a-half-year grace period and a nine-year final maturity, while the second had four years' grace and a nine-year final maturity. Both required comparability in treatment for private bank debt reschedulings.

Table 18 provides a current picture of Liberia's economy. No forecasts are available, but Liberia continues to suffer most of the same ills as most LDCs. Debt service on existing loans is heavy for an economy of Liberia's size, consuming over 30 percent of the Gross Domestic Product. FMS loans are a small, but still substantial part of this problem. Table 19 gives complete debt service details.

Area, population, and GDP per capita

Area	43,000 square miles (111,370 square kilometers)
Population: Total (1981)	1.97 million
Growth rate	3.3 per cent
GDP per capita	$568 (SDR 482)

	1977	1978	1979	1980	1981
GDP at constant 1971 prices	(In millions of dollars)				
Monetized GDP at factor cost	354.2	368.2	384.4	366.2	3[illegible].[illegible]
Agriculture	54.9	59.9	62.8	63.0	49.4
Of which: rubber	(23.1)	(21.9)	(20.2)	(21.0)	(21.3)
forestry	(16.4)	(21.2)	(23.3)	(23.0)	(12.3)
Mining and quarrying	94.3	93.3	99.1	111.0	110.5
Of which: iron ore	(89.7)	(88.3)	(94.2)	(106.8)	(104.8)
Manufacturing	29.2	30.7	33.0	26.0	...
Construction	19.2	22.0	20.0	15.0	...
Government services	35.1	36.9	39.6	39.6	39.6
Other services	121.5	125.4	129.9	111.6	...
Subsistence economy	77.2	77.2	78.0	80.0	82.4
Total GDP at market prices	473.6	496.2	512.4	491.4	486.3
GDP at current market prices	872.9	943.7	1,067.6	1,116.8	1,119.0
Annual rates of growth of GDP and prices	(In per cent)				
GDP at constant 1971 market prices	1.6	4.8	3.3	-4.1	-1.0
GDP at current market prices	14.6	8.1	13.1	4.6	2.0
GDP deflator	12.7	3.2	9.6	9.1	[illegible]
Consumer price index	6.0	7.1	11.5	14.7	7.6

	1977/78	1978/79	1979/80	1980/81	1981/82
Central government finance	(In millions of dollars)				
Revenue and grants	201.5	224.4	[illegible]	242.[illegible]	279.3
Revenue	185.5	201.9	[illegible]	[illegible]	[illegible]
Grants	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Expenditure	273.3	365.7	[illegible]	357.0	397.0
Recurrent	122.3	152.9	179.[illegible]	232.9	300.6
Development	151.6	212.8	134.0	134.2	96.4
Overall deficit, commitments basis	-72.4	-140.8	-8[illegible].9	-114.6	-117.7
Increase in check float and other arrears				1.9	26.8

[illegible]

TABLE 18
LIBERIA - BASIC DATA

	1977/78	1978/79	1979/80	1980/81	1981/82
	(In millions of dollars)				
Financing	72.4	140.8	87.9	112.7	-90.9
Foreign borrowing (net)	33.5	134.4	65.5	60.2	39.9
Drawings and Trust Fund	47.3	179.1	87.0	67.2	46.4
Amortization	-13.8	-44.7	-21.5	-7.0	-6.5
Domestic borrowing (net)	38.9	6.4	22.4	52.5	51.0
Banking system	25.4	25.8	42.1	30.2	46.8
Other	13.5	-19.4	-19.7	22.3	4.2

	1977	1978	1979	1980	1981
Money and credit	(In millions of dollars)				
Foreign assets (net)	27.6	-7.2	-66.9	-138.2	-160.8
Domestic credit	125.1	202.8	273.4	279.3	298.3
Claims on Government (net)	12.4	59.3	89.1	149.7	190.5
Claims on public corporations	1.6	11.3	38.0	40.9	33.1
Claims on private sector	111.1	132.2	146.3	88.7	74.7
Recorded money supply	126.1	153.9	162.3	115.8	102.6
	(Annual rate of change)				
Domestic credit	27.0	62.1	34.8	2.2	6.8
Claims on Government (net)	-1.6	378.2	50.3	68.0	27.3
Claims on private sector	31.3	19.0	10.7	-39.4	-15.8
Recorded money supply	12.6	22.0	5.5	-28.7	-11.4
Balance of payments	(In millions of dollars)				
Current account deficit (-)	-134.3	-155.6	-132.5	-101.4	-79.3
Trade balance	-26.8	-9.6	10.3	49.7	40.1
Exports, f.o.b.	(447.4)	(486.4)	(536.6)	(600.4)	(529.2)
Imports, c.i.f.	(-474.2)	(-496.0)	(-526.3)	(-550.7)	(-489.1)
Services (net)	-110.8	-145.7	-145.5	-157.8	-157.5
Unrequited transfers (net)	3.3	-0.3	2.7	6.7	38.1
Capital movements (net)	143.1	139.9	100.3	35.8	36.4
Official	42.7	64.6	114.3	80.1	44.0
Private (net), including errors and omissions	100.4	75.3	-14.0	-44.3	-7.6
Allocation of SDRs	—	--	5.2	5.0	4.8
Overall balance:	8.8	-15.7	-27.0	-60.6	-38.1
Gross official reserves (end of period)	27.4	18.0	55.0	4.1	7.4
External public debt outstanding 1/ (disbursed; end of period)	263.6	343.5	506.0	592.6	684.7

TABLE 18 Cont.
LIBERIA - BASIC DATA

Fiscal Year	All External Debt[1,2] Prin	All External Debt[1,2] Interest	MILITARY: US FMS Loans[7] Prin	MILITARY: US FMS Loans[7] Interest	ECONOMIC: US AID Loans[3] Principal	ECONOMIC: US AID Loans[3] Interest	ECONOMIC: Ex-Im Bank Loans[4] Principal	ECONOMIC: Ex-Im Bank Loans[4] Interest	ECONOMIC: EXP Credit Loans Prin	ECONOMIC: EXP Credit Loans Interest	ECONOMIC: PL 480 Loans[3] Prin	ECONOMIC: PL 480 Loans[3] Interest
1982	37.7	37.0	--	--	--	--	--	--	--	--	--	--
1983	49.4	35.4	.958	.920	1.601	1.535	1.870[5]	.310[5]	0	0	.484	.633
1984	55.6	32.2	1.976	2.336	1.783	1.615	1.412	.321			.464	.486
1985	65.7	23.3	1.955	2.300	2.672	1.723	.318	.289			.510	.473
1986	66.4	23.4	1.464	2.100	2.903	1.753	.318	.257			.510	.457
1987	48.1	18.8	1.884	1.919	3.030	1.735	.318	.224			1.181	.442
1988	45.8	16.3	2.660	1.653	3.122	1.704	.318	.193				
1989	37.8	14.4	2.660	1.344	3.346	1.723	2.252[6]	1.781[6]				
1990			2.013	1.097	2.664	1.689						
1991			2.013	.870	2.713	1.630						

1 As of December 1981.
2 Public Debt Only.
3 As of September 30, 1982.
4 As of March 31, 1983, (Short-term FICA Excluded).
5 Calendar years, 1983 is last three quarters only.
6 89 entry for 1989 and all subsequent years.
7 As of June 15, 1983.

TABLE 19: LIBERIAN DEBT SERVICE ON EXISTING LOANS
(In millions of U.S. Dollars)

SOURCE: World Bank, U.S. Department of Defense, U.S. Treasury, June 1983.

THE FORECAST FOR MOROCCO

Morocco's real GDP growth fell by 1.6 percent in 1981 and grew only slightly in 1982. For 1983, GDP is expected to grow only about 3 percent. Inflation (CPI) grew from 12.5 percent in 1981 to 13.5 percent in 1982, but it is expected to fall to 11 percent in 1983 due to a drop in the growth of the Moroccan money supply and the general slowdown in worldwide inflation rates. The two major foreign exchange earners, tourism and workers' remittances, have been reduced somewhat by the effect of a weak dirham compared to the U.S. dollar. Together with a deterioration in the balance of trade and heavy debt service requirements, Morocco's current account deficit was 1.8 billion dollars in 1981, 2.2 billion in 1982, and about 2.2 billion for 1983.

For 1984-87, real GDP is expected to grow between 3 and 4 percent annually. If a tight monetary policy is followed and if worldwide inflation rates continue to moderate as expected, Morocco's inflation rate is expected to decline to about 9 percent by 1987. The current account balance will remain in deficit by about 2.2 million dollars annually, accentuating the debt service problem.

This somewhat favorable forecast assumes that Morocco will resolve its current conflict in the Western Sahara at current levels of military expenditure, that some discipline over the widening balance-of-trade deficit is achieved during the 1984-85

period, and that the relief gained from the past Paris Club rescheduling will allow a meaningful decrease in debt service burden. Otherwise, the economic future of Morocco over the period 1984-87 remains dubious at best.

Morocco has been an independent nation since 1956 and a constitutional monarchy since 1962. In 1970, Spain ceded its Atlantic enclave, Ifni, to Morocco, but two more Spanish enclaves containing Ceuta and Melilla still remain under Spanish control. In 1976, Moroccan territory was increased further when Morocco and Mauritania agreed to a boundary dividing the former Spanish Sahara between them; these de facto annexations were not recognized in international law.

In early 1979, Mauritania signed a peace treaty with the Popular Front for the Liberation of Saquia el Hamra and Rio de Oro (Polisario Front). The Polisario Front began attacks inside Morocco in January 1979. Moroccan troops subsequently occupied Mauritanian-controlled Dakha. Morocco has accused Algeria of instigating Polisario attacks and has claimed that the guerrillas are Algerian-paid mercenaries. In May and June 1979, Morocco applied diplomatic pressure on Spain to moderate its policy favoring self-determination for the Western Sahara. In June 1979, Morocco formally complained to the U.N. Security Council about Algerian aggression, and in July, its delegation walked out of the Organization of African Unit's summit meeting in Monrovia,

Liberia, to protest a call for a Saharan cease-fire and referendum. In October 1979, the U.S. Government resumed arms supplies to Morocco, and in November, Morocco launched a major military offensive in the Sahara.

On the economic side, Morocco's mineral, agricultural, hydroelectric and light industrial resources are far from negligible. It possesses about 40 percent of the world's known phosphate reserves and is the world's second largest producer. Other mineral deposits include iron, lead, manganese, zinc, cobalt, copper, and silver. Petroleum reserves in the Rharb are being rapidly depleted, necessitating the importation of most of the crude oil processed by Morocco's two refineries. These refineries, however, provided Morocco with 96 percent of its domestic petroleum consumption in 1982. Domestic coal is a major source of fuel for the nation's power plants. However, in the mid-seventies, only about one-half of the nation's hydroelectric potential was being used. Some 38.3 million acres of land are under cultivation, but irregular harvests and poor yields forced Morocco to import a large percentage of certain staple food products during the seventies. After the drought years of 1979-81, agricultural production has shown promise of substantial growth. The production of wheat and barley doubled in 1981-82 compared to 1980-81. Sugar crops increased by 9.9 percent, citrus production by 2.6 percent. In 1982, citrus fruits represented 40-45 percent

of food production and accounted for 11 percent of total exports. Total exports of food increased by 6.1 percent in 1982 compared to 1981, due primarily to a spectacular increase in the export of fish (239 percent) and shellfish (138) percent. However, citrus exports declined in 1982 by 6.8 percent.

Between 600 thousand and 700 thousand Moroccans work in industry, mines, or handicrafts. In addition to food, automobile assembly and textiles provide surpluses for export. The ancient Moroccan handicraft products, which include carpets, hand-tooled leather, and intricate metalwork are also produced in sufficient quantity for export.

The production of minerals dropped by 11 percent in the first half of 1982, due primarily to a drop in phosphate production of 12.9 percent. Anthracite coal and copper output increased by 5.7 percent and 166 percent, respectively. Mineral exports lost over 20 percent in value in 1982 compared with 1981. However, with the general improvement in the world economy, mineral exports are expected to show substantial increases over the period 1983-84, and a sustained annual growth of about 3-5 percent for the period 1984-87.

The annual per capita consumption of energy in Morocco is about 20 percent lower than the world average. About 85 percent of consumption is accounted for by industry and agriculture,

including industrial transportation. Without substantial infrastructure development and a rise in per capita domestic incomes (less than 100 dollars per year), energy consumption is likely to remain primarily industrial.

Responding to increases in world oil prices during the decade of the seventies, the Moroccan Government increased its administered domestic petroleum product prices 5-7 percent in 1981-82. As a result, domestic consumption increased only 1 percent in 1981 compared to an average annual rate of 9 percent in 1979 and 1980. In particular, domestic gasoline consumption decreased by 13 percent in 1981, to a level equal to 1972 consumption. Lower world oil prices in 1982 and 1983 will undoubtedly improve the balance of trade on the import side, and may cause consumption to increase in 1984, if the government eases its petroleum product price levels.

France is Morocco's largest trading partner, accounting for 25 percent of the value of its imports and 22 percent of its exports. The balance of trade with France has always been in deficit, with the gap reaching over 560 million dollars in 1982. However, Moroccan expatriate workers in France sent home 604 million dollars in 1982. Also, France provided Morocco with 260 million dollars in loans in 1983, including concessionary loans and export credits to support balance of payments deficits and development projects

From the U.S., Morocco imported over 200 million dollars in manufactured goods, primarily transport equipment, in 1981, and a somewhat smaller amount (about 170 million) in 1982. In November 1982, the U.S. Government granted Morocco an interest-free loan of 28 million dollars to finance wheat purchases from the U.S. For 1983-84, another U.S. Government loan of about 112 million is expected.

Morocco is facing a serious problem in terms of financing its external deficit. Since 1980, the IMF has helped with an SDR of 810 million over three years, which was replaced by another the following year (SDR 817 million over the period through October 1983), and a one-year standby (SDR 281.25 million over the period ending April 1983). This support is expected to continue, since the Fund seems satisfied with Morocco's economic management efforts. One of the requirements of the adjustment program was a restriction of non-concessional borrowing to SDR 500 million in 1982.

According to the Monthly Information Review (May-June 1982) of Banque Morocaine du Commerce Exterieur, public borrowing was equivalent to 1,948 million dollars in 1981. Of that amount, 77 percent was borrowed by the government and the remainder by government-owned enterprises. Loans of foreign exchange amounting to 1,729 million dollars and 219 million dollars represented commercial credit. The distribution of the borrowings in 1980

and 1981, by country of origin or institution were as follows:

	1980	1981
Arab Countries	699	1016
France	170	138
United States	70	95
West Germany	15	27
China	3.4	9.6
World Bank	71	104
African Development Bank	-	8.5
Arab Monetary Fund	-	10.6
Arab Fund for Economic and Social Development	-	50
Capital Markets	680	414

SOURCE: World Bank, U.S. Department of Defense, U.S. Treasury, June 1983.

TABLE 20. MOROCCO.
PUBLIC EXTERNAL BORROWING
(Millions of U.S. Dollars)

In 1981, borrowing from all Arab sources was a significant 1.0 billion dollars. In light of sharp declines in oil revenue in the Arab World, increases from these sources may be constrained for the next few years. At the same time, the high debt already contracted by Morocco and the increasing difficulty in servicing this debt will certainly depress the eagerness of financial institutions to continue to lend to Morocco.

Indeed, the total external debt (including short-term public and private) of Morocco stood at [illegible].7 billion [illegible] with a debt service ratio of about 38 percent. By 1987, total debt will have increased to 21 billion with a [illegible] service ratio of 43 percent (total public and private debt service will be 2.5

billion dollars). Table 22 provides details on Moroccan GDP and balance of payments for the period 1980-82, and forecasts for 1983-87. Table 21 provides debt service forecasts for 1983-91.

The U.S. Government share of Moroccan external public debt service is small. Total U.S. Government assistance loans, including FMS, AID, Ex-Im Bank, Export Credit and PL-480, will amount to about 5.6 percent of total external debt service in FY 1983. If no new loans are made, this share will rise to about 5.7 percent in FY 1985, and will drop thereafter.

In FY 1983, U.S. FMS loans will amount to about 2.8 percent of total external public debt service. However, as grace periods expire and if no new loans are made, this share will decline slowly to about 2.7 percent in 1985 and will drop rapidly thereafter.[34]

Fiscal Year	All External Debt[1,2] Prin	All External Debt[1,2] Interest	MILITARY: US FMS Loans[7] Prin	MILITARY: US FMS Loans[7] Interest	ECONOMIC: US AID Loans[3] Principal	ECONOMIC: US AID Loans[3] Interest	ECONOMIC: Ex-Im Bank Loans[4] Principal	ECONOMIC: Ex-Im Bank Loans[4] Interest	ECONOMIC: EXP Credit Loans Prin	ECONOMIC: EXP Credit Loans Interest	ECONOMIC: PL 480 Loans[3] Prin	ECONOMIC: PL 480 Loans[3] Interest
1982	756.7	620.4	[illegible]	15.223	--	--	--	--	--	--	--	--
1983	729.0	752.6	28.324	[illegible]	9.071	9.451	8.853[5]	3.706[5]	0	0	6.078	4.136
1984	972.1	602.6	25.125	[illegible]	9.572	9.129	16.534	4.949			6.078	4.230
1985	965.9	[illegible]	25.743	14.913	10.028	8.882	13.911	3.631			6.078	4.048
1986	1597.8	[illegible]	[illegible]	12.147	10.479	8.607	13.804	2.886			7.305	3.868
1987	1113.8	360.2	18.116	9.587	11.010	8.238	13.561	2.261			7.142	3.881
1988	809.7	280.3	12.443	7.550	11.735	7.913	11.372	1.682				
1989	643.9	[illegible]	[illegible]	5.056	12.225	7.567	28.494[6]	2.723[6]				
1990			[illegible]	[illegible]	12.722	7.135						
1991			8.780	3.745	11.889	6.692						

[1]As of December 1981.
[2]Public Debt Only.
[3]As of September 30, 1982.
[4]As of March 31, 1983. (Short-term [illegible] Excluded).

[5]Calendar years, 1983 is last three quarters only.
[6]89 entry for 1989 and all subsequent years.
[7]As of June 15, 1983. FMS principal and interest in amounts include actual payments for FY1982 and the first eight months of FY1982, and projected payments for the remaining four months of FY1983 and subsequent years.

Sources: World Bank, U.S. Department of Defense, U.S. Treasury, June 1983.

TABLE 21
MOROCCAN DEBT SERVICE ON EXISTING LOANS
(In Millions of U.S. Dollars)

Calendar Year:	1980	1981	1982	1983	1984	1985	1986	1987
	(Billions of U.S. Dollars)							
Private Consumption	46.46	53.00	63.07	73.10	83.33	94.16	109.35	117.11
Percent Change	13.8	14.3	18.8	16.8	14.0	13.0	12.1	11.0
Govt. Expenditure	14.13	15.80	18.33	20.90	23.51	26.17	29.05	31.88
Percent Change	8.8	11.8	16.0	14.3	12.0	11.3	11.0	10.0
Gross Fixed Investment	14.77	16.60	19.43	22.31	26.06	29.64	33.27	36.28
Percent Change	-.7	12.7	18.0	15.0	14.2	13.0	13.0	9.0
Increase in Stocks	1.09	.09	1.87	-.44	-.80	-.47	-1.03	-.28
Exports	13.38	16.50	17.02	20.66	23.86	27.60	31.51	35.92
Percent Change	23.4	23.3	3.2	21.4	15.5	15.7	14.2	14.0
Imports	19.76	23.50	27.70	31.51	35.75	40.60	45.35	50.79
Percent Change	9.2	28.2	8.4	13.8	13.5	13.6	11.7	12.0
GDP	70.02	77.50	92.37	105.81	120.20	136.30	152.0	170.2
Percent Change	12.0	10.7	19.2	14.3	13.8	13.4	12.3	11.2
GDP in 1975 Prices	46.88	45.93	48.21	49.65	51.39	53.45	55.05	56.70
Percent Change	4.8	-1.8	5.0	3.0	3.5	4.0	3.0	3.0
GDP Deflator 1975=100	150.1	168.8	191.8	212.7	233.9	255.0	277.9	300.2
Percent Change	8.5	12.3	13.4	11.0	10.0	[illegible]	8.8	8.0

	(Millions of U.S. Dollars)							
Merchandise								
Exports	2.4	2.3	2.0	2.0	2.2	2.4	2.8	2.8
Imports	-3.8	-3.8	-3.8	-3.8	-4.0	-4.3	-4.6	-4.8
Balance	-1.4	-1.6	-1.8	-1.8	-1.8	-1.9	-2.0	-2.0
Services								
Exports	0.9	0.8	0.8	0.9	1.0	1.1	1.2	1.3
Imports	-2.0	-2.2	-2.3	-2.4	-2.6	-2.7	-3.0	-3.2
Balance	-1.1	-1.4	-1.5	-1.5	-1.6	-1.6	-1.8	-1.9
Total Unrequited Transfers	1.1	1.1	1.2	1.2	1.3	1.4	1.6	.7
Current Account Balance	-1.6	-1.8	-2.2	-2.0	-2.1	-2.1	-2.2	-2.1

Source: Chase Econometrics, Forecasts for January 1983.

TABLE 22
MOROCCAN MAJOR ECONOMIC INDICATORS

THE FORECAST FOR OMAN

As in other oil producing countries, declining world oil prices led to a slowdown in the Omani economy in 1982. Real GDP grew by only 3.4 percent, compared to 7.1 percent in 1981. Oman's ambitious second Five-Year Development Plan (1981-85) was based on projected world oil prices exceeding 40 dollars per barrel. Given a current benchmark price at 29 dollars per barrel and the possibility of a price between 25-27 dollars per barrel in 1983-84, Oman cut back somewhat on its development agenda. However, barring another round of substantial OPEC oil price cuts to below 25 dollars per barrel, the outlook for Oman is for continued moderate growth during the period 1984-88.

Crude oil production, the key to Oman's oil-based economy, amounted to about 330 thousand barrels per day in 1981 and 1982, and the Omani Government expects that production will be around 360 thousand barrels per day in 1983. Oman will continue to price its oil consistent with the Arab benchmark price of about 29 dollars per barrel in 1982. Beginning in late 1984, if the world oil demand increases consistent with the expected world economic [illegible], oil prices and Omani production will rise moderately during the period 198[illegible]-88. Expected production in 1988 will be about 420 thousand barrels per day. Recoverable reserves, [illegible] at 2.[illegible] billion barrels, give Oman the capacity [illegible] for another 20-25 years. Active exploration programs and subsequent expected discoveries

will likely extend this production capacity for an even longer period.

Omani revenues are derived from four main sources: oil, non-oil income, loans, and foreign grants. Oil receipts are expected to be 3.42 billion dollars in 1983, or 82 percent of total receipts. About 9 percent of receipts comes from non-oil income, and about 9 percent from loans and grants. Thanks to oil income (4.4 billion dollars in 1981) the Omani government obtained a balanced budget in 1981 and a small surplus in 1982 of 0.6 billion dollars. However, revenues are expected to fall short of expenditures by 0.6 billion dollars in 1983. The Omani government will likely seek long-term loans on the international credit market rather than drawing on its general fund to cover the projected 1983 budget deficit.

Oman's short-term growth rate will be modest, 3.3 percent in GDP growth in 1983. Its foreign trade surplus will be about 200 million dollars in 1983 but will decline to about 50 million in 1984. Oman had a 2 billion dollar current account surplus in 1981 and a small surplus in 1982. However, Oman will run a current account deficit in 1983 of about 900 million dollars, primarily due to lower oil revenues and increased merchandise imports.

For the period 1984-88, Oman will continue to experience

moderate growth. GDP will grow to about 3.7 percent in 1984. If world oil demand increases as expected in late 1984, Oman's GDP will grow at between 5 and 9 percent annually through 1988. Oman's inflation rate will closely follow the inflation rate for the U.S. dollar for the period 1984-88, since the riyal is pegged to the dollar on international monetary markets. Also, U.S. and Japanese exports to Oman are strongest in heavy machinery, transport equipment, manufactured goods, and construction materials (695 million dollars in 1981). An acceleration in import price inflation after the industrialized country business cycle peak in 1984-85 will explain a significant portion of Oman's domestic inflation during 1985-88.

Imports are projected to grow at an average annual rate of about 8 percent during the period 1984-87. Oman's biggest trading partner is Japan, with imports from that country valued at 517 million dollars in 1981. Imports from the U.S. in 1981 were valued at 347.8 million, followed by South Korea with 88.6 million.

Petroleum will remain the cornerstone of the Omani economy for the foreseeable future. In 1981, crude oil accounted for 94 percent of export earnings (4.4 billion) and 64 percent of Gross Domestic Product. Although Oman is not a big producer by regional standards, crude output increased from 283 thousand barrels per day in 1980 to 330 thousand barrels per day in 1981,

largely due to new fields in Dhofar.

During 1982, production ran at the government's target level of 330 thousand barrels per day, but revenues dropped because of slumping world oil prices. In January 1981, Oman was selling its crude for 39 dollars per barrel, and by early 1983, for 29 dollars per barrel. Oman is not a member of OPEC nor OAPEC, and has historically been a price follower. Lately though, Oman has begun to coordinate more closely on oil policy with other members of the Gulf Cooperation Council (Bahrain, Kuwait, Qatar, Saudi Arabia, and Egypt). Developments in OPEC will determine how Omani crude prices move during the period 1984-88.

In order to make up for lost revenues in late 1982, the government announced its decision to boost crude production by 10 percent beginning in early 1983. This would raise production to about 360 thousand barrels per day, the highest level since the historic peak of 366 thousand barrels per day achieved in 1976.

In 1982, the Omani Government ceased playing the spot market with quarterly contracts and reinstituted annual term agreements. The principal customer is Japan, which purchased about one-half of Oman's crude in 1981. West Germany, the Netherlands, and Singapore are other major buyers. The United States purchased 9.1 million barrels in 1981, about 8 percent of Omani exports.

The primary producer in the country is Petroleum Development Oman (PDO), owned 60 percent by the government and 40 percent by the foreign partners; Shell, the operator (34 percent); CFP (4 percent); and Patex (3 percent). PDO, which has been in operation since 1967, produced almost 320 thousand barrels per day in 1981, including about 45 thousand from Marmul and other southern fields. 1981 was a successful exploration year, and PDO commissioned several new fields in Dhofar. In October 1982, PDO officially inaugurated its second major production center in Dhofar at Rima. Rima crude is particularly attractive since it is much lighter than the standard Dhofar blend of heavier crude. The government expects Rima to produce 45 thousand barrels per day in 1984.

The only other producer in Oman is Elf Aquitaine, which heads a foreign consortium in the Butabol concession in Western Oman. Elf's Sahmah field has been producing 11-12 thousand barrels per day of extremely light crude since late 1980. Elf is currently drilling new development wells at Sahmah in hopes of boosting output to 80 thousand barrels per day.

Active exploration continues throughout the country. PDO has 11 rigs in operation. Elf is drilling offshore near the Musandan Peninsula, where some gas and condensate have previously been discovered. Amoco (offshore) and Gulf (onshore) have conducted drilling programs during 1982, and BP will reportedly resume

drilling shortly. Seismic work is proceeding in five new concession blocks awarded in 1981 to Amoco, Japax, Japan Petroleum Development, and Elf. As all are committed to drill a number of exploration wells during the concession terms, considerable drilling activity is expected in 1983-84.

In the past, Oman has exported all of its crude and has relied on imported refined products for domestic consumption. This changed with the opening of Oman's first refinery in November 1982. The 50 thousand barrel per day intake capacity topping plant is designed to meet domestic requirements for gasoline, jet fuel, diesel, kerosene, and bunker fuel. The government has awarded the refinery management contract to Ashland Oil of the United States. A lube oil blending plant has been proposed to complement the refinery, but plans for an asphalt unit have been shelved for now.

Oman may have a second refinery, strictly for export purposes, in the next couple of years. The Omani Government has recently commissioned a feasibility study for a large export refinery on the Omani coast, perhaps to be supplied with crude piped across Oman from Saudi Arabia and other Gulf states.

Natural gas reserves are fairly modest: about 6 trillion cubic feet of which 1.5 trillion is associated gas. This is considered too small for a liquified natural gas industry and may

not be sufficient to provide feedstock for downstream petrochemicals applications. Associated gas is processed at the Yibal plant; the butane product is bottled and sold locally, while the tail gas is added to the non-associated production and is used for fuel purposes in power plants, industry, etc.

An upcoming major gas project will more than double the capacity of the natural gas treatment plant at Yibal. The expansion program also involves drilling new gas wells and installing additional compressors on existing gas pipelines. The enhanced supply should help meet ever-increasing demands for gas as fuel. Two U.S. firms, Bechtel and Parsons, are among those short-listed for the 130 million dollar project. Omani Government policy is to conserve resources by using gas rather than diesel for industrial fuel wherever possible. A 226 kilometer, 16-inch gas pipeline from the capital area up the Batinah Coast to the copper smelter at Sohar was completed in 1981. A new 292 kilometer, 16-inch line carries gas south from central Oman for use as fuel in the Dhofar [illegible]. The Government has approved the design [illegible] pipeline to carry gas from Marmul [illegible] over the mountains [illegible] Salalah, [illegible] the project is contingent upon funding.

Non[illegible] limited [illegible] and [illegible] at Sohar, scheduled [illegible]. Although some

progress is being made in improving and diversifying agricultural production, output--and potential--remains small. Fisheries resources hold more promise for the future. To help diversify the economy, the government is promoting domestic manufacturing, particularly small-scale import substitution industries backed by private investment. Oman remains highly dependent upon its foreign work force, now more than 145 thousand and still growing.

Oman is also attempting to diversify its export base to include more non-petroleum products, which accounted for less than 10 percent of export revenue in 1983. Agricultural products and fish make up the bulk of these exports, which are marketed primarily in the Middle East and India. Although an estimated two-thirds of the native Omani population derive their livelihood from traditional agriculture and fishing, these long-neglected sectors--historically the mainstay of the economy--contributed less than five percent on non-oil GDP in 1981. Exports of products of Omani origin have increased five-fold since 1977 but still totaled only 18.9 million dollars in 1981.

Arable land is limited in Oman: about 40 thousand hectares are presently under cultivation, with perhaps and equal amount of uncultivated land suitable for farming. Harsh climate, poor soil, lack of water, and rural to urban migration are other constraints. Aware that these conditions make large agribusiness projects unrealistic, the government seeks to develop agriculture

by assisting individual farmers through better farming methods to improve and diversify production. This program has social value as well in that it induces farmers to remain on the land and not abandon their farms.

Traditionally, the main Omani crops were dates and limes together with some goat husbandry. There is now emphasis on alfalfa, Rhodes grass, garden vegetables, poultry, and dairy/beef cattle. The government's goal under the current Five Year Development Plan is to double domestic food production, and some progress is being made. The government-owned Oman Sun Farms, for example, now exports fresh milk and hay to Egypt and has plans to add beef cattle to its existing dairy herd.

The Omani government has established new institutions to promote agricultural development. The Oman Bank for Agriculture and Fisheries provides concessional credit and technical assistance to Omani farmers and fishermen. The Public Authority for Marketing of Agricultural Produce was created to improve domestic food distribution and storage. An Agricultural College in Nizwa now has an enrollment of 150 students, while in Khabura, an experimental farm is administered under a program of Durham University of the U.K. The Ministry of Agriculture and Fisheries is conducting soil and ground water surveys, building new agricultural research and extension centers, and carrying out a major program of maintenance and repair of the traditional irrigation

system.

Recently completed projects include a 60 thousand ton/year animal feed plant in Salalah. The Omani-American Joint Commission for Economic and Technical Cooperation is initiating a water recharge project in Wadi al-Khoudh near Seeb. A low catchment dam will be built to halt runoff from the nearby mountains long enough to permit the water to soak into the soil and recharge the aquifer. If this pilot program proves successful, the scheme could be duplicated in numerous areas in mountainous Oman, limiting the wasteful runoff of scarce rainfall.

The fisheries sector has also suffered from long stagnation. Most fishing in Oman is done by some 7-8 thousand native fishermen who operate individually. Prospects for development are good, however, as Oman is blessed with a long coastline (1700 km) on the Indian Ocean. The waters are rich in sardines, tuna, kingfish, mackerel, red snapper, cuttlefish, and other species. Abalone are fairly abundant along the coast of Dhofar.

Estimates of annual catch are notoriously inaccurate and vary widely. The most reliable estimate seems to be between 50-80 thousand tons. It is generally agreed that Oman's fisheries resources could support substantial expansion of the industry, but studies are needed to determine the size of stocks of various species. To this end, the government plans a 4.1 million dollar

marine science research center near Muscat.

Government policy is to develop commercial fishing without jeopardizing the livelihood of the native fishermen. A Fishermen's Encouragement Fund was established in 1976 to administer distribution of outboard motors, boats, and nets at subsidized rates. The new Agriculture and Fisheries Bank, which also offers low-cost loans, has assumed responsibility for this program. Other government projects designed to aid fishermen include new cold storage facilities, distribution centers, marine workshops and harbors and jetties.

The Ministry of Agriculture and Fisheries development program is receiving an important boost through technical assistance and training sponsored by the Omani-American Joint Commission. A number of Omani will be sent to the United States for studies and U.S. experts will go to Oman to train their counterparts.

Oman's foreign debt service is relatively small, accounting for 4.7 percent of GNP in 1980. The debt service ratio for the same year was 6.6 percent, and will remain between 4 and [illegible] percent for the period 1983-87. The U.S. Government share of Omani external debt service (public and private) is almost all accounted for by U.S. FMS loans. In 1983, the U.S. share of total Omani debt service was 10.5 percent. If no new loans are made, this share will decline steadily to about 6 percent in

1987.

In sum, there is little cause for concern with regard to the total Omani debt service burden or with the U.S. share of that burden during the period 1983-87. A drop in world oil prices below 25 dollars per barrel would substantially alter the 1983-87 economic forecast; however, such a drop would appear unlikely. Major economic indicators, balance of payments, and debt service forecasts on existing loans are provided in Tables 23 through 25.[35]

Fiscal Year	All External Debt[1,2] Principal	All External Debt[1,2] Interest	MILITARY: US FMS Loans[7] Prin	MILITARY: US FMS Loans[7] Interest	ECONOMIC: US AID Loans[3] Principal	ECONOMIC: US AID Loans[3] Interest	ECONOMIC: Ex-Im Bank Loans[4] Principal	ECONOMIC: Ex-Im Bank Loans[4] Interest	ECONOMIC: EXP Credit Loans Prin	ECONOMIC: EXP Credit Loans Interest	ECONOMIC: PL 480 Loans[3] Prin	ECONOMIC: PL 480 Loans[3] Interest
1982	[illegible]	29.8	5.663	4.590	--	--	--	--	--	--	--	--
198[illegible]	[illegible]	[illegible]	8.[illegible]8	7.636	0	0	0[5]	0[5]	0	0	0	0
[illegible]	[illegible]	5[illegible]	[illegible].6[illegible]8	7.805			0	0				
198[illegible]	[illegible]	[illegible]	[illegible]	6.452			0	0				
[illegible]	[illegible]	[illegible]	[illegible]	5.098			0	0				
[illegible]	[illegible]	43.2	[illegible]	3.745			0	0				
[illegible]	[illegible]	33.[illegible]	[illegible]	2.391			0	0				
198[illegible]	[illegible]	[illegible]	6 [illegible]	1.141			4.500[6]	0[6]				
[illegible]	[illegible]	[illegible]	[illegible]	.385								
[illegible]	[illegible]	[illegible]										

[1]As of December 1982
[2]Public and Private [illegible]
[3]As of September 30, [illegible]
[4]As [illegible] (FICA Excluded).

[5]Calendar years, 1983 is last three quarters only.
[6]89 entry for 1989 and all subsequent years.
[7]As of June 15, 1983. FMS principal and interest amounts include actual payments for FY 1982 and the first eight months of FY 1983, and projected payments for the remaining four months of FY 1983, and subsequent years.

Source: World Bank, [illegible] Department of Defense, U.S. Treasury
June 1983

TABLE 23
OMAN: DEBT SERVICE ON EXISTING LOANS
(In Millions of U.S. Dollars)

Calendar Year:	1980	1981	1982	1983	1984	1985	1986	1987
CURRENT ACCOUNT BALANCE, US $ BILLIONS								
MERCHANDISE EXPORTS, FOB	3.7	4.7	4.3	3.9	3.9	4.8	5.4	6.4
% CHANGE	60.9	27.0	-8.5	-9.3	1.0	21.9	12.5	18.5
MERCHANDISE IMPORTS, FOB	-1.9	-2.6	-3.2	-3.6	-3.9	-4.1	-4.3	-4.6
% CHANGE	40.2	36.8	23.1	12.5	8.1	5.4	4.9	7.0
TRADE BALANCE	1.8	2.1	1.1	.3	.0	.7	1.1	1.8
EXPORTS OF SERVICES	.1	.3	.3	.3	.2	.3	.3	.3
% CHANGE	800.0	281.8	1.6	-10.7	-12.0	18.2	11.5	13.0
IMPORTS OF SERVICES	-.5	-.9	-.9	-1.0	-1.0	-1.1	-1.1	-1.2
% CHANGE	33.2	67.5	8.6	8.2	4.1	6.6	3.6	4.8
BALANCE ON SERVICES	-.4	-.6	-.7	-.7	-.8	-.8	-.9	-.9
UNREQUITED TRANSFERS, NET	-.3	-.3	-.4	-.4	-.4	-.4	-.4	-.4
CURRENT ACCOUNT	1.1	1.2	.1	-.8	-1.1	-.5	-.1	.5
PETROLEUM SECTOR: MAIN INDICATORS								
GROSS OUTPUT OF CRUDE PETROLEUM (MBD)	.28	.33	.33	.36	.36	.40	.40	.42
% CHANGE	-3.7	15.9	.5	8.4	.0	10.5	.0	4.6
EXPORTS OF CRUDE PETROLEUM (MBD)	.28	.33	.32	.33	.33	.36	.36	.40
% CHANGE	-8.1	17.6	-1.7	2.5	.0	13.2	.0	8.0
OFFICIAL PRICES OF IRAQ LIGHT (US $/BBL)	33.20	36.73	34.00	29.83	30.00	32.50	36.00	40.00
% CHANGE	61.4	14.1	-7.4	-12.3	.0	8.3	10.8	11.1
GOVERNMENT OIL REVENUES (US $ BILL)	3.6	3.7	3.4	3.3	3.3	4.0	4.4	5.1
% CHANGE	40.70	36.44	-8.24	-4.43	.84	21.20	10.34	16.01

SOURCE: Wharton Middle East Service, April 1983.

TABLE 24
OMAN: BALANCE OF PAYMENTS FORECAST

Calendar Year:	1980	1981	1982	1983	1984	1985	1986	1987
GDP AND MAJOR COMPONENTS, MILL. 1978 RIYALS								
PRIVATE CONSUMPTION EXPENDITURES	302.1	326.3	348.1	366.3	394.1	426.4	465.2	502.0
% CHANGE	12.6	8.0	7.0	5.5	7.0	8.2	9.1	7.9
PUBLIC CONSUMPTION EXPENDITURES	358.4	462.7	482.7	480.5	496.8	519.6	544.0	556.1
% CHANGE	74.2	29.5	4.3	-.7	3.4	4.6	4.7	2.6
TOTAL GROSS FIXED INVESTMENT	270.4	336.2	361.8	373.4	398.7	424.8	441.8	464.4
% CHANGE	26.3	24.4	7.6	3.2	6.8	6.5	4.0	5.1
TOTAL IMPORTS OF GOODS + SERVICES	482.3	627.9	699.5	720.1	737.3	730.8	697.4	694.3
% CHANGE	24.8	30.5	10.9	4.8	1.1	-.9	-4.5	-.5
TOTAL EXPORTS OF GOODS + SERVICES	481.5	499.5	491.7	506.1	507.6	567.0	563.5	591.3
% CHANGE	1.9	10.0	-1.0	3.3	.0	11.6	-.6	4.8
GROSS DOMESTIC PRODUCT	828.1	893.6	1028.0	1061.8	1101.4	1206.0	1270.6	1342.8
% CHANGE	21.4	7.1	3.4	3.8	3.7	6.4	5.4	5.7
NON PETROLEUM GDP	496.3	537.8	576.1	573.1	615.4	666.1	735.6	783.3
% CHANGE	38.2	8.8	7.1	-.5	7.4	8.7	10.0	6.4
VALUE ADDED IN PETROL. SECTOR	432.8	456.0	451.8	488.8	486.0	530.0	534.8	559.6
% CHANGE	6.8	5.4	-.9	3.3	-.8	10.3	-.2	4.8
PETROLEUM SECTOR								
GROSS OUTPUT OF CRUDE PETROLEUM (BILL. BBL.)	.104	.120	.120	.133	.133	.148	.148	.153
% CHANGE	-3.71	15.53	.84	9.36	.00	10.77	.00	4.73
EXPORTS OF CRUDE PETROLEUM (BILL. BBL.)	.103	.120	.118	.131	.131	.137	.137	.145
% CHANGE	-5.12	17.65	-1.67	2.54	.00	15.22	.00	5.84
CRUDE PETROLEUM EXPORT PRICE ($/BBL.)	33.20	36.72	34.00	29.83	30.00	32.50	36.00	40.00
% CHANGE	61.40	14.07	-7.43	-12.26	.57	8.33	10.77	11.11
GOVERNMENT OIL REVENUES (BILL. US DOLLARS)	2.77	3.75	3.40	3.26	3.27	3.97	4.37	5.11
% CHANGE	46.78	35.44	-9.34	-4.43	.64	21.30	10.24	16.81
DEFLATORS OF OUTPUT AND EXPENDITURES, 1978=100								
IMPLICIT DEFLATOR OF GDP	207.0	235.2	223.6	214.7	219.8	236.2	256.9	279.4
% CHANGE	34.6	13.7	-5.0	-4.0	2.4	7.5	8.3	9.2
IMPLICIT DEFLATOR FOR NON-PETROLEUM GDP	137.3	157.6	161.8	171.5	182.7	194.0	208.1	224.8
% CHANGE	9.0	14.9	2.6	6.0	6.6	6.2	7.3	7.5
IMPLICIT DEFLATOR OF AGGREGATE DEMAND	149.3	155.7	163.5	173.0	183.6	194.6	209.1	224.2
% CHANGE	12.0	4.3	5.2	5.8	6.2	5.9	7.6	7.2
IMPLICIT DEFLATOR OF PRIVATE CONS. EXP	127.0	130.8	138.6	147.0	155.2	163.1	175.1	186.7
% CHANGE	10.2	3.0	5.8	6.1	5.6	5.1	7.4	6.6
IMPLICIT DEFLATOR OF PUBLIC CONS. EXP.	181.1	184.7	173.3	183.2	194.9	207.8	222.3	240.8
% CHANGE	8.0	8.0	5.2	5.7	6.4	6.6	7.0	8.2
MERCHANDISE TRADE, MILL. CURR. RIYALS								
TOTAL EXPORTS OF GOODS	1134.4	1520.6	1384.1	1246.3	1282.3	1536.1	1701.5	2001.0
% CHANGE	83.1	34.0	-9.0	-10.0	.6	22.7	10.8	17.6
TOTAL IMPORTS OF GOODS	713.4	940.2	1158.0	1301.2	1418.3	1494.0	1556.7	1661.0
% CHANGE	36.1	31.8	23.2	12.4	9.0	5.4	4.1	6.8
TRADE BALANCE IN GOODS	421.0	580.3	226.1	-55.0	-136.0	41.2	144.8	330.1

SOURCE: [illegible] Service, April 1983.

TABLE 2

OMAN: MA[illegible] ECONOMIC INDICAT[illegible]

THE FORECAST FOR PAKISTAN

Pakistan registered its fifth consecutive year of GDP growth in Pakistani Fiscal Year (PFY) 1981-82 (1 July - 30 June). Real GDP increased by 6.3 percent, with agricultural output growing by 3.0 percent and industrial output growing by 12.1 percent. However, little growth occurred during PFY 1982-83 due to the worldwide recession, lower prices for Pakistani's agricultural and textile exports, an overvalued rupee, and lower remittances from Pakistani expatriate workers. For late 1983 through 1988, Pakistan is expected to continue to experience some GDP growth. However, continued growth at previous levels is highly dependent upon increased efficiency in government-owned industries, increases in the per acre yield of agricultural products, and a leveling off of the 3.0 percent annual growth rate in population. If these structural problems are not resolved, the future growth of Pakistani's GDP and, in particular, its per capita GDP, remains problematical for the period 1984-88.

Altho[illegible]

The Pakistani Government's development program for PFY 1981-82, and its annual plan for PFY 1982-83, reflected the shift in public sector priorities from industrial projects and subsidies to infrastructure investments in agriculture and energy. The balance of payments deteriorated in the wake of world recession, low export commodity prices, a shortfall in workers' remittances, and the effects of an overvalued rupee. Highlights of Pakistan's current economic relations with the United States include a resumption of American aid (PFY 1982-82 was the first year of a projected six-year, 3.2 billion dollar package of economic and military assistance), opportunities for an expanded U.S. role in supplying imports, and strong interest on the part of the Government of Pakistan in attracting American investment.

Since coming to power in July 1977, the martial law administration of General Zia ul-Haq has presided over five consecutive years of rapid growth. Gross domestic produce (GDP) has increased by over 6 percent per year, agricultural production has improved to the point where Pakistan is now a net food exporter, industrial growth has averaged over 9 percent per year, and the balance of payments situation has become substantially more manageable. In part, this economic turnaround has been due to government policy--notably rationalization of agricultural input and output prices; reorientation of development priorities toward the agricultural, energy and social sectors and away from public

industry and subsidies; conservative fiscal management and tight control of the money supply--but it has also resulted from generally favorable weather, high export commodity prices, and a boom in workers' remittances which has helped to offset the shock of higher oil prices. Moreover, much of the value added to date in agriculture can be traced to expanded acreage rather than improvements in efficiency; similarly, industrial growth has been largely propelled by output from recently completed, large public sector industrial projects conceived under the previous regime. With scope for further acreage expansion narrowing and with government no longer investing public resources in industry, future growth in these sectors will depend upon increases in agricultural yields and a strong upsurge in private industrial investment. If such developments do not occur, Pakistan's economic outlook for the period 1984-88 is problematical, particularly as population increases of about three percent a year substantially affect economic growth. However, the government is aware of these structural problems and, with the help of the IMF, World Bank, Asian Development Bank and other bilateral aid donors, is seeking, albeit cautiously, to create an environment conducive to sustained growth and development.

The agricultural sector contributes about 30 percent of GDP, employs over half of the work force and provides, directly or indirectly, over half of export receipts. In PFY 1981-82,

output increased by 3.0 percent, short of the 5.1 percent target and down from the previous year's 4.0 percent. Although most major crops reached record levels of production, the sector as a whole suffered slower growth due to a the effect of adverse weather conditions on the wheat crop. Late rains and shortages of irrigation water at sowing time, coupled with excessive rains and hail storms during the harvest, reduced wheat output to 11.2 million tons, down from the previous year's 11.5 million tons and well short of the projected 12.2 million tons.

The manufacturing sector, which accounts for about 17 percent of GDP, recorded strong growth of 12.1 percent during PFY 1981-82. Value added in large-scale industry increased by 14 percent while growth in small-scale industry was placed at 7.3 percent. Cotton textile manufacturing remains Pakistan's largest industry, but in recent years the organized mill sector has been plagued with falling productivity, poor labor relations, outmoded equipment, lack of credit, and increasing protectionism by the developed countries. During PFY 1981-82, production of cotton yarn rose by 7.9 percent while production of cotton cloth rose by only 1.4 percent, yet exports of yarn declined by 7.0 percent and exports of cloth increased by 15.8 percent. In December, 1981, Pakistan and the United States concluded a new bilateral textile agreement which increased access of Pakistan's textile products to the United States. New, higher ceilings for cotton garments

will result in increased Pakistani garment exports to the United States in the near future.

During PFY 1981-82, the public sector Pakistan Automobile Corporation and Suzuki Corporation finalized a 450 million dollar automobile assembly project. Initial production capacity will be 25 thousand units over ten years. Under the arrangement, by which the Japanese are to provide technical assistance, 61 percent of components are to be manufactured locally within six years.

The Pakistani Government also continued its policy of curtailing public investment in industry while improving incentives to the private sector. With the PFY 1982-83 budget, the government has effectively curtailed all new spending on industry, with the exception of the Karachi Steel Mill. The existing public manufacturing units, of which there are about 60, grouped in eight corporations under the Ministry of Production, account for about a third of fixed assets in medium and large-scale industry. These companies improved their overall production index by 13 percent during PFY 1981-82, but this was attributable mostly to new units coming on stream. Efficiency of the public units remains generally poor. The possibility of any large-scale denationalization appears to be remote; in most cases where the government has discussed denationalization with former owners, it has proven impossible to reach mutually acceptable terms

concerning debt assumption, labor policy and pricing. This being the case, the government is striving to improve the efficiency and productivity of its manufacturing entities by allowing greater autonomy to individual managers and by enforcing greater accountability. For PFY 1982-83, industrial output is targeted to grow by 9 percent, based on the assumption of a modest recovery in the textile sector, improved capacity utilization, and new capacity in fertilizer, cement, steel, sheet glass and glass products, and polyester fiber.

In the energy sector, the recent trend has been one of increasing imports of petroleum and growing shortages of domestic natural gas supplies. During PFY 1981-82, the government began to take steps to reverse this development. The pricing and production agreement with the major oil producer, *Pakistan* Oilfields Limited (POL), was revised so that the price of oil produced from new wells at the existing field at Meyal will be substantially increased (from 44 rupees per barrel to 32 percent of import parity price). This new arrangement, the government hopes, will provide adequate incentive to expand production and investment over the next few years.

Gross domestic investment during PFY 1981-82 increased 17.5 percent, with public investment rising sharply by 20.2 percent and private investment increasing by 12.6 percent. Within the private sector, officially-recorded investment in manufacturing

was up only 5 percent, a significant retrenching from increases of 25 percent, 38 percent and 19 percent in the three previous years. The share of private investment in gross domestic fixed capital formation thus declined from 34.6 percent to 33.6 percent. Most of the increase in public investment reflected the recent shift in the Pakistani Government's development priorities and came in agricultural, energy and social sectors. The government has adopted a strategy of curtailing all further investment in industry, and gradually eliminating agricultural input subsidies (mainly for fertilizer) so as to free up public resources for investment in priority areas. Future investment in industry is to be reserved for the private sector. Public sector industries will obtain funding through self-financing and commercial borrowing rather than from budgetary allocations. Actual expenditures in PFY 1981-82 and allocations projected under the PFY 1982-83 budget reflect this shift, with expenditures for agriculture, energy and social services rising from 52.8 percent to 56.5 percent of total, and spending for industry (primarily the Karachi Steel Mill) and fertilizer subsidies [illegible] from [illegible] percent to 14.7 percent.

In line with the government's stated desire to improve the climate for private industrial investment, much of the emphasis in public spending is being shifted to removal of infrastructure bottlenecks, particularly in energy, but also in transport and

communications. Moves in this direction have been welcomed by the private sector, but there is a consensus that much remains to be done. Public investment still represents close to 70 percent of total fixed capital formation. Clearly, the legacy of the wholesale nationalizations of the previous regime continues to affect private sector confidence and, while there is little sign that the government will divest any of the major nationalized industries in the near term, there are numerous other areas in which imaginative government actions might inspire a revival of private investment. The continuing problems, according to sector critics, are: (a) cumbersome and time-consuming government regulations; (b) bias toward import substitution in the present system of industrial incentives; (c) pricing distortions which discourage efficiency and restrict the allocative function of the market mechanism; (d) scarce and inefficiently distributed credit, both foreign exchange and local currency; (e) lack of infrastructure; and (f) labor laws and practices which reduce labor productivity by affording excessive job protection to workers.

Despite a substantial revenue shortfall, Pakistan's overall budgetary situation remained stable in PFY 1981-82. The major factor causing revenue problems was a sharp decline in customs duty receipts due to a slowdown in import growth. As a result, revenue collections were 3 billion rupees short of target.

Added to this was a decline in contributions from public manufacturing units due to the increased cost of fuel which followed the revision of gas power tariffs, but perhaps more intrinsically linked to the structure and management of the public corporations. Although total Government of Pakistan development expenditures of 27 billion rupees were less than their budgeted levels, the overall deficit increased by 25.6 percent over the previous year, to 18.4 billion rupees, representing 5.6 percent of GDP. Despite a shortfall in actual foreign aid, the government was able to finance this without exceeding IMF ceilings on borrowing from the domestic banking system thanks to the extraordinary growth in domestic nonbank resources, which rose by 45 percent over the previous year's record level. This increase appears to reflect the public's enthusiastic response to the government's enhancement of yields on various bonds and small savings instruments and demonstrated the potential for increasing private savings and investment.

The budget for FY 1982-83 is a cautious reiteration of the government's policy of redirecting public resources within a context of strict financial discipline. The only departure from the norm was the introduction of Ushr, an Islamic tax on agricultural production, which was assessed for the first time on the harvest from the 1982 rabi (winter) crop in the spring of 1983. Proceeds from Ushr collections will not be included in government

revenues, as they are to be administered by religious organizations and distributed as charity for the poor. As for the budget itself, the major new measure to address last year's revenue shortfall was a further 5 percent surcharge on imports. Import duty collections are projected to pick up and continue to provide the single largest source of revenue. "Self financing" by public corporations is expected to improve by 43 percent over last year's unimpressive performance. Gross disbursements of foreign aid are to rise 26 percent from the level attained in PFY 1981-82 with greater emphasis on rural areas and the "neglected sectors" of primary education, primary health care, and rural water supply, electrification, and roads. Meanwhile, the government remains committed not to exceed its IMP-approved ceiling on deficit financing of 5.7 billion rupees.

Notwithstanding the government's performance in sustaining financial stability in recent years, the longer-term structure of Pakistan's public finances remains precarious. On the revenue side, a major weakness of the tax system remains its overreliance on specific rates for customs and excise duties. Income, corporate, and sales tax play lesser roles in Pakistan than in most comparable countries. The tax/GDP ratio in PFY 1981-82 was 13.0, extremely low by most standards. Improvements in this area would appear crucial if the government is to maintain the pace of its development program in the next few years.

There is little leeway for reductions in current expenditures, three-quarters of which in this year's budget are taken up by defense and debt servicing requirements. Given these constraints, the authorities are likely to be increasingly hard-pressed to mobilize adequate domestic resources to finance development objectives in the coming years without improved revenue collections. Continued reliance on nonbank financing such as small savings schemes may not be practical, since such deposits have proved volatile in the past and because this represents a diversion of scarce national savings into budgetary support rather than productive investment.

For PFY 1982-83, the government is projecting an improvement in all aspects of Pakistan's balance of payments. Based on an estimated increase in exports of 12.5 percent, in imports of only about 6 percent, and in workers' remittances of 12 percent, the current account deficit would narrow to 1.3 billion dollars. Pakistan again entered the Eurodollar market in PFY 1982-83, borrowing a total of [illegible] million dollars in [illegible] for [illegible] million, loan managed by Bank of America, Chase Manhattan, Chemical, Morgan, Manufacturers Hanover, [illegible] Bank; and another for 150 million, led by Citibank, American Express, Arab Banking Corporation, Lloyd's, and Manufacturers Hanover). These latest commercial borrowings were noteworthy in that Pakistan was able to negotiate significantly more favorable

terms than in previous contracts (payback over three years rather than one, at interest rates quite close to the London Interbank Offer Rate (LIBOR)). Assuming aid disbursements at about the level pledged at the June, 1982, Consortium meeting, the overall deficit would also narrow somewhat to 235 million dollars. Following IMF transactions under the final year of economic support, this would result in an increase of 344 million dollars in foreign exchange reserves.

In August, 1981, the United States and Pakistan completed negotiations on a 3.2 billion dollar package of economic and military assistance which the United States will seek to provide Pakistan over a six-year period. The economic package totals 1.625 billion dollars and takes a development-oriented approach, which is reflected in the considerable commodity component (PL-480 edible oil, phosphatic fertilizer, agricultural equipment, insecticides, and contraceptives) and the substantial local currency cost financing in projects. The focusc of the projects corresponds with the government's development priority sectors of agriculture, energy and social services. Terms of the assistance are two-thirds grant and one-third concessional loans. During PFY 1981-82, the United States obligated a total of 150 million dollars, of which 50 million was in PL-480 financing of edible oil. For PFY 1v982-83, the United States has pledged to contribute 250 million dollars, including 50 million in PL-480, but

this amount awaits Congressional approval. The military assistance package is composed of 1.6 billion dollars in FMS guaranteed credits to be extended over five years beginning in PFY 1982-83.

As previously stated, the U.S. Government share of Pakistani's external debt service will be relatively large during the period 1984-88. Total U.S. Government assistance loans, including FMS, Ex-Im Bank, and PL-480 will amount to 17.6 percent of total Pakistani external debt service (public and private) in U.S. FY 1983. If no new loans are made, this share will grow to about 23.5 percent in FY 1987, and will level off at about 20 percent for the remainder of the decade.

In U.S. FY 1983, U.S. FMS loans will account for 1.1 percent of total Pakistani external debt service. However, as grace periods expire, the FMS share will increase to 3.8 percent in FY 1986, and will level off to about 3.6 percent for the remainder of the decade. Details are provided in Table 26.

Forecasts of major economic and balance of payments [illegible] tors for the period 198[illegible]-88 are not available [illegible]. However, Table 2[illegible] provides recent historical data for certain indicators. In general, the data and our analysis indicate that continued GDP growth at the 6 percent level remains in doubt for Pakistan during the period 1984-86. Much depends upon the eco-

lution of structural problems in both industry and agriculture. The U.S. Government has a substantial stake in Pakistan's future growth, since the U.S. will account for about 20 percent of Pakistan's current external debt service burden for the period 1984-88.[36]

Fiscal Year	All External Debt[1,2] Prin	All External Debt[1,2] Interest	MILITARY: US FMS Loans[7] Prin	MILITARY: US FMS Loans[7] Interest	ECONOMIC: US AID Loans[3] Principal	ECONOMIC: US AID Loans[3] Interest	ECONOMIC: Ex-Im Bank Loans[4] Principal	ECONOMIC: Ex-Im Bank Loans[4] Interest	ECONOMIC: EXP Credit Loans Prin	ECONOMIC: EXP Credit Loans Interest	ECONOMIC: PL Loa[ns] Prin
1982	381.6	23[illegible].1			1.224	.058	--	--	--	--	--
1983	[illegible]95.8	[illegible]	0	8.091	51.770	45.347	1.905[5]	2.722[5]	0	0	8.17[illegible]
198[illegible]	4[illegible]7.0	[illegible]	0	15.626	53.480	45.115	3.643	5.229			9.22[illegible]
19[illegible]	516.7	[illegible]33.8	0	15.626	65.232	44.060	11.155	4.791			11.47[illegible]
[illegible]	554.3	[illegible]20.9	15.790	15.218	66.269	42.858	13.715	3.715			12.82[illegible]
198[illegible]	558.7	[illegible]34.0	15.790	13.573	68.741	42.150	10.285	2.624			16.14[illegible]
[illegible]	566.7	[illegible]86.9	15.790	11.920	70.424	40.682	10.285	1.755			
[illegible]	585.[illegible]	[illegible]62.4	15.790	10.283	72.337	38.950	12.878[6]	.9856[6]			
[illegible]	457.2	[illegible]52.[illegible]	15.790	8.638	72.948	37.544					
199[illegible]	460.[illegible]	[illegible]39.9	15.790	6.993	76.594	35.778					

[1]As of December 19[illegible]
[2]Public and Private [illegible] guaranteed.
[3]As of September [illegible] [illegible]82.
[4]As of March [illegible] [illegible] (Short-term PICA Excluded).

[5]Calendar years, 1983 is last three quarters only.
[6]89 entry for 1989 and all subsequent years.
[7]As of June 15, 1983. P

Source: [illegible] Department of Defense and the U.S. Treasury, June 198[illegible].

TABLE 26
PAKISTAN: DEBT SERVICE ON EXISTING LOANS
(Millions of U.S. Dollars)

PFY (1 July-30 June)	PFY 1979-80	PFY 1980-81	PFY 1981-82	% Change Over PFY 1980-81
Gross National Product (GNP) (million rupees)	254,793	302,388	349,699	15.6
Population (millions)	80.2	82.6	85.0	2.9
GNP Per Capita (rupees)	3,177	3,661	4,114	12.4
Exchange Rate (U.S. $1=) (rupees)	9.90	9.90	12.20	-23.2
Annual Real Growth Rates (percent) (PFY 1959-60 factor cost)				
—Gross National Product	7.0	5.1	5.6	-
—Gross Domestic Product	7.3	6.1	6.3	-
—Agriculture	6.7	4.0	3.0	-
—Manufacturing	10.1	9.9	12.1	-
—Services	4.8	6.0	5.4	-
Sectoral Share in GDP (percent)				
—Agriculture	31.5	30.8	29.9	-
—Manufacturing	15.6	16.2	17.1	-
—Services	44.1	44.1	43.7	-
Expenditure and Savings Ratios				
Consumption/GNP	86.6	86.6	86.8	-
Gross Domestic Investment/GNP	16.0	14.5	15.0	-
Gross Domestic Savings/GDP	6.7	6.3	6.9	-
Gross Domestic Savings/Gross Domestic Investment	38.6	40.5	4[illegible].2	-
Government Finances (million rupees)				
—Current Revenue	38,502	47,002	51,187	8.9
—Surplus of Autonomous Bodies	1,464	2,019	1,909	-5.4
—Current Expenditure	32,824	37,839	44,456	17.5
—Development Expenditure	21,805	25,800	27,000	4.7
—Overall Deficit	-14,663	-14,618	-18,358	25.6
—(External Financing)	(6,951)	(7,741)	(6,350)	-18.0
—(Domestic Nonbank)	(1,407)	(4,522)	(6,561)	45.1
—(Banking System)	(6,305)	(2,355)	(5,447)	131.3
Money Supply (million rupees)	90,688	103,524	114,399	10.5
—(As % of GDP)	(38.3)	(37.0)	(35.0)	-
Price Indices (PFY 1969-70=100)				
—Consumer (year-end)	311.8	355.0	396.0	11.5
—Wholesale (year-end)	316.7	358.8	393.6	9.7
Balance of Payments (million dollars)				
Trade Balance	-2,516	-2,765	-3,440	24.4
Exports, f.o.b.	2,341	2,798	2,319	-17.1
(to United States)	(123)	(162)	(179)	10.5
Imports, f.o.b.	-4,857	-5,563	-5,759	3.5
(from United States)	(527)	(591)	(499)	-15.6
Services (net)	-524	-459	-542	18.1
Private Transfers (net)	1,895	2,233	2,394	7.2
of which: remittances	(1,743)	(2,097)	(2,200)	4.9
Current Account Balance	-1,145	-991	-1,588	60.2
Gross Aid Disbursements	1,054	956	1,102	15.3
Overall Balance	238	124	-571	360.0
Change in Reserves	159	291	-213	-
Total Reserves (year-end)	948	1,239	1,026	-17.2
(in weeks of imports)	8.2	10.3	8.2	-
Debt Service Ratio *	16.1	13.8	14.0	-

(* as percentage of all current account receipts)

Source: State Bank Annual Report, 1981-82 and Embassy Estimates

TABLE 27
PAKISTAN: MAJOR ECONOMIC INDICATORS

THE FORECAST FOR THE PHILIPPINES

The prolonged worldwide recession and resultant depressed commodity prices have contributed substantially to the 1979-82 downturn in Philippine economic activity and the progressive weakening of its external balance of payments position. Domestically, the drop in export commodity prices and the subsequent deterioration in the terms of trade have adversely affected Philippine real incomes, producing a slowdown in GDP growth during 1982 to 1.6 percent, the country's lowest growth performance in the past 20 years. Furthermore, the rise in the Philippine trade and current account deficits has prompted concerns about the country's growing external debt and its ability to meet its debt service obligations. The need to restore lender and investor confidence and forestall a possible debt rescheduling has ruled out the use of stimulatory government monetary and fiscal policies to counteract sagging domestic demand, and has prompted the Philippine Government to request assistance from the International Monetary Fund (IMF).

To qualify for IMF credit, the Philippine Government cut 1983 expenditures across the board for all ministries. In addition, 1983 public capital outlays have been cut 28 percent, with the exception of certain infrastructure projects, which will be cut 25 percent. The government has also imposed a 3 percent ad valorem tax on imports and pressed its demand for prepayment of import duties. The combined expenditure cut and tax program is

expected to reduce the government's budget deficit from about 13.4 billion pesos (3.9 percent of GNP) in 1982 to about 9.4 billion pesos (2.4 percent of GNP) in 1983.

For the short term, real GDP is expected to rise about 3.5 percent in 1983. This positive growth rate will be due to an expected increase in worldwide demand for Philippine primary commodity exports. Inflation is expected to rise about 11.4 percent in 1983, up from last year's estimated 9 percent. The upturn in inflation, after two consecutive yearly declines, reflects, in part, administered price increases for diesel fuel. The higher fuel costs are unlikely to be absorbed by the manufacturing sector, which is already operating under severely depressed profit margins.

The Philippines trade deficit is expected to narrow from 2.80 billion dollars in 1982 to 2.58 billion in 1983, reflecting improvements in the terms of trade and trade volumes. For the year, the value of exports is expected to rise 14.5 percent to 5.68 billion dollars, while the value of imports is expected to rise a more modest 6.1 percent to 8.26 billion.

Over the period 1983-88, the Philippines should show an improvement in its external balance of payments position. However, the price for this improvement will be reduced domestic capital formation and lower GDP growth than would otherwise be

possible under less stringent government fiscal and monetary policies and import restrictions. GDP is expected to rise an average of 4.5 percent between 1983 and 1989, considerably less than the average annual growth rate of 6.0 percent during the 1970s. The marked slowdown in growth reflects, in part, cutbacks in public investment. Inflation is expected to fluctuate between 11 and 13 percent between 1982 and 1988. While the Philippines will benefit from lower inflation resulting from an improved outlook on energy and a further abatement of inflationary pressures abroad, price controls on agricultural goods and fuels may have to be lifted to avoid shortages, particularly in the manufacturing sector.

The deterioration in Philippine terms of trade and the related rise in its current account deficits over the past three years have caused considerable concern about the growing Philippine external debt service burden. Aware of its need to restore investor confidence and to improve its external payments position, the Philippine Government has requested a total of 810 million dollars in concessional loans and grants from the IMF and the World Bank. An anticipated improvement of the debt service situation would be the highlight of Philippine economic performance over the next decade. The debt-service ratio was approximately 46 percent in 1982. During the period 1983-88, fairly consistent declines are expected, falling to less than 30 percent

by 1988.

The U.S. Government portion of the Philippines' public debt service burden is relatively small. Total U.S. Government assistance loans, including FMS, Ex-Im Bank, Export Credit, and PL-480, will amount to about 6.93 percent of total Philippine public debt in FY 1983. If no new foreign loans are obtained, debt service to the U.S. Government will grow to about 12.8 percent in 1988.

If we consider both public and private debt, the U.S. Government share of the Philippine debt service burden is even smaller. In FY 1983, the U.S. Government share of Philippine public and private debt service will be 3.92 percent. If no new U.S. Government loans are obtained, this share will grow to 7.43 percent by 1988.[37] Details are provided in Table 28.

In FY 1983, U.S. FMS loans will account for about 1.94 percent of the Philippine public debt. If no new foreign loans are obtained, FMS debt service will remain less than 2 percent of total public debt service. If we consider both public and private debt, FMS accounts for an even smaller percentage of total Philippine debt service. Details are provided in Table 29.

U.S. Fiscal Year	All External Debt[1,2] Prin	Interest	MILITARY: US FMS Loans[7] Prin	Interest	ECONOMIC: US AID Loans[3] Principal	Interest	Ex-Im Bank Loans[4] Principal	Interest	EXP Credit Loans Prin	Interest	PL 480 Loans[3] Prin	Intere[st]
1982	[illegible]	535.2	26.056	4.085	--	--	--	--	--	--	--	-
1983	630.[illegible]	762.0	21.[illegible]50	5.839	4.130	6.401	22.771[5]	29.148[5]	0	0	6.432	2.03
1984	784.[illegible]	794.2	24.[illegible]	10.999	2.549	7.232	41.752	32.709			6.582	2.15
1985	96[illegible]	791.6	24.650	10.063	3.034	7.538	43.204	31.912			6.582	1.94
1986	[illegible]124.[illegible]	770.2	22.050	7.680	3.928	8.285	46.174	30.722			6.582	1.74
1987	1254.0	715.4	22.[illegible]	5.208	4.080	8.360	146.894	29.353			6.582	1.53
1988	[illegible]	630.3	10.5[illegible]	2.962	5.908	8.869	107.531	28.054				
1989	105[illegible]	[illegible]38.[illegible]	[illegible]	2.019	[illegible].472	8.823	773.177[6]	115.363[6]				
1990	960.[illegible]	[illegible]63.2	[illegible]	1.285	[illegible].264	8.919						
1991	913.[illegible]	388.4	6.[illegible]	552.001	10.260	8.915						

[1]As of [illegible] 1982.
[2][illegible]
[3][illegible] 1981
[4][illegible] 1983,
([illegible])

[5]Calendar years, 1983 is last three quarters only
[6]For all 1989 entry and all subsequent years.
[7]FMS principal and interest include eight months of FY 1983, and projected payments for the *remaining four months of FY 1983 and subsequent* years.

[illegible]: World Bank, [illegible] of Defense, U.S. Treasury, June 1983.

TABLE 28
PHILIPPINES: DEBT SERVICE ON EXISTING LOANS
(In Millions of US Dollars)

Calendar Year:	78	79	80	81	82	83	84	85	86	87	88
					BILLIONS OF PESOS						
GROSS DOMESTIC PRODUCT	176.60	220.48	265.97	307.18	340.62	390.26	456.06	536.55	616.62	716.29	834.44
					BILLIONS OF 1972 PESOS						
GROSS DOMESTIC PRODUCT	83.06	88.35	92.69	96.20	98.67	102.11	107.42	112.60	117.18	122.07	128.00
					AGGREGATE DEMAND						
PRIVATE CONSUMPTION	54.18	56.94	59.27	61.61	63.65	66.11	69.06	71.97	74.91	78.01	81.31
GOVERNMENT CONSUMPTION	.79	7.99	8.37	8.72	8.77	8.61	8.99	9.50	10.08	10.65	11.17
GROSS FIXED INVESTMENT	19.16	22.11	22.74	23.03	24.01	25.17	26.33	27.36	28.59	29.91	31.76
CHANGE OF STOCKS & RESIDUAL	4.19	4.78	4.94	5.77	5.65	3.06	5.06	6.30	5.12	5.74	6.90
EXPORTS OF GOODS & NF SERVICES	13.96	15.16	17.74	18.46	17.75	18.38	19.61	19.99	20.93	21.71	22.10
IMPORTS OF GOODS & NF SERVICES	16.36	18.46	19.97	18.88	18.73	19.17	20.23	21.53	22.66	23.49	24.84
					AGGREGATE SUPPLY						
VALUE-ADDED:											
AGRICULTURE	21.63	22.60	23.73	24.56	25.44	26.06	27.94	29.31	30.46	31.60	33.32
MINING	1.81	2.15	2.24	2.28	2.14	2.22	2.30	2.35	2.37	2.45	2.60
MANUFACTURING	22.11	23.36	22.18	23.97	24.24	24.99	24.69	26.16	29.02	31.21	27.80
CONSTRUCTION	6.91	7.32	7.16	7.83	6.32	8.45	8.90	9.29	9.77	10.37	10.97
UTILITIES	0.77	0.85	0.92	0.99	1.06	1.10	1.16	1.21	1.26	1.34	1.42
SERVICES	31.86	33.61	35.50	36.55	37.45	38.71	40.53	42.27	43.60	45.31	46.85
					PERCENTAGE CHANGES						
GROSS DOMESTIC PRODUCT (NOMINAL)	16.0	23.6	20.6	15.5	10.9	14.6	16.9	17.6	14.9	16.2	16.5
GROSS DOMESTIC PRODUCT (REAL)	6.2	6.9	4.9	3.8	2.6	3.5	5.2	4.8	4.1	4.5	4.8
PRIVATE CONSUMPTION	5.2	4.8	4.0	3.9	3.3	3.9	4.5	4.2	4.1	4.1	4.2
GOVERNMENT CONSUMPTION	4.0	2.6	4.6	4.1	0.6	-1.8	4.5	5.7	6.1	5.6	5.4
GROSS FIXED INVESTMENT	11.9	15.5	2.8	1.3	4.4	4.6	4.6	3.9	4.5	4.6	6.1
EXPORTS OF GOODS & NF SERVICES	-1.3	9.9	15.5	4.0	-3.8	3.5	5.7	3.0	4.7	3.7	1.8
IMPORTS OF GOODS & NF SERVICES	14.0	12.6	8.2	-5.4	-0.8	2.4	5.5	6.4	5.2	3.7	5.7
VALUE-ADDED:											
AGRICULTURE	4.7	4.5	5.0	3.6	3.5	4.5	4.8	4.9	3.9	4.7	4.5
MINING	1.8	16.0	4.0	2.0	-6.0	4.1	3.5	2.2	0.8	3.4	6.4
MANUFACTURING	8.1	5.6	4.2	3.6	1.2	3.1	6.4	5.9	6.0	5.7	6.7
CONSTRUCTION	6.2	20.4	8.2	9.6	6.2	1.7	5.3	4.4	5.1	5.2	6.0
UTILITIES	7.9	10.2	8.0	7.8	6.8	3.3	5.4	5.1	5.2	5.2	5.6
SERVICES	4.0	5.6	6.2	3.0	2.8	3.3	4.7	4.2	3.6	3.6	3.3

Source: Chase Econometrics, January 1983.

TABLE 29

PHILIPPINES: MAJOR ECONOMIC INDICATORS FORECAST

CURRENT ACCOUNT:											
EXPORTS OF GOODS, FOB	3.42	4.60	5.79	5.76	4.96	5.66	6.90	7.99	8.42	9.36	10.94
COCONUT PRODUCTS	0.86	1.01	0.81	0.74	0.63	0.66	0.73	0.85	0.81	0.88	0.97
COPPER	0.25	0.44	0.54	0.45	0.40	0.62	0.80	0.99	0.88	0.95	1.24
LUMBER	0.33	0.48	0.40	0.32	0.25	0.28	0.32	0.35	0.35	0.37	0.41
SUGAR	0.21	0.21	0.62	0.56	0.33	0.38	0.46	0.46	0.42	0.37	0.37
MANUFACTURES	1.21	1.76	2.11	2.34	2.01	2.16	2.71	3.21	3.60	4.21	5.07
OTHER GOODS	0.56	0.70	1.31	1.34	1.33	1.60	1.81	2.13	2.36	2.90	2.88
IMPORTS OF GOODS, FOB	4.73	6.14	7.73	7.96	7.78	8.26	8.96	10.13	11.22	12.39	13.81
CRUDE PETROLEUM	0.91	1.11	1.86	2.05	1.71	1.79	1.86	2.09	2.07	2.19	2.71
TRADE BALANCE	-1.31	-1.54	-1.94	-2.20	-2.82	-2.58	-2.07	-2.18	-2.80	-3.03	-2.87
EXPORTS OF SERVICES	1.43	1.58	2.08	2.57	2.37	2.36	2.72	3.09	3.26	3.61	3.71
IMPORTS OF SERVICES	1.59	1.95	2.62	3.14	3.18	3.43	3.41	3.71	4.15	4.45	4.81
INTEREST PAYMENTS	0.31	0.48	0.58	0.80	1.11	1.10	0.93	0.94	1.16	1.17	1.18
UNREQUITED TRANSFERS, NET	0.31	0.36	0.43	0.47	0.44	0.37	0.40	0.46	0.45	0.40	0.38
CURRENT ACCOUNT BALANCE	-1.16	-1.56	-2.05	-2.30	-3.30	-3.26	-2.35	-2.31	-3.25	-3.47	-3.59
CAPITAL ACCOUNT:											
FOREIGN DIRECT INVESTMENT	0.16	0.07	0.04	0.40	0.19	0.25	0.30	0.30	0.25	0.36	0.42
AMORTIZATION	0.98	1.00	0.45	0.75	1.16	1.41	1.56	1.62	1.77	1.98	2.10
ERRORS AND OMISSIONS	-0.17	-0.24	-0.32	-0.62	-0.20	-0.30	-0.20	-0.20	-0.20	-0.20	-0.20
BALANCE OF PAYMENTS	0.56	0.44	1.14	0.18	-0.55	-0.60	-0.83	0.72	0.72	-0.40	0.50
LOAN AND FINANCING REQUIREMENTS	3.01	3.16	3.91	3.45	3.92	4.13	3.39	4.00	5.60	4.09	5.97
DEBT POSITION											
TOTAL PUBLIC LONG-TERM DEBT	4.17	5.14	6.40	7.36	9.73	11.24	12.15	13.79	16.01	17.62	19.80
TOTAL PRIVATE LONG-TERM DEBT	2.09	2.07	2.01	2.74	3.13	3.51	3.67	4.05	4.61	4.93	5.42
TOTAL LONG-TERM DEBT	6.26	7.21	8.41	10.10	12.86	14.75	15.82	17.84	20.62	22.55	25.22
TOTAL DEBT	8.20	9.78	12.70	15.29	16.95	18.87	20.10	23.83	26.74	29.60	33.52
TOTAL DEBT SERVICE	1.28	1.40	0.99	1.55	2.87	2.61	2.49	2.86	3.03	3.18	3.28
TOTAL DEBT SERVICE RATIO	37.36	32.16	17.17	26.93	40.77	44.14	36.11	32.06	34.80	35.65	29.90
INTEREST RATE (EURO-DOLLAR)	9.1	12.1	13.8	16.7	13.4	9.3	9.3	10.6	8.8	8.0	7.9
EXCHANGE RATE											
PESOS PER U.S.$	7.4	7.4	7.5	7.9	8.6	9.6	10.4	11.5	12.1	13.0	13.9
END OF YEAR	7.4	7.4	7.6	8.1	9.2	9.9	10.9	11.8	12.5	13.6	14.4
ANNUAL PERCENTAGE CHANGES											
EXPORTS OF GOODS, FOB	11.2	34.6	25.8	-0.6	-13.8	30.5	21.4	15.8	5.5	11.1	16.9
COCONUT PRODUCTS	16.5	17.5	-20.5	-7.9	-15.0	5.0	9.6	17.0	-5.1	8.9	10.7
COPPER	-3.9	71.5	23.4	-17.0	-30.4	55.4	41.9	11.4	-10.3	7.2	30.7
LUMBER	26.5	44.7	-15.3	-20.1	-21.6	12.8	10.7	10.1	0.6	6.7	11.0
SUGAR	-55.4	0.4	195.4	-10.4	-40.1	13.7	19.8	3.1	-8.2	-11.4	1.7
MANUFACTURES	33.8	45.7	19.8	11.2	-14.2	7.3	25.6	18.6	12.1	17.0	20.2
IMPORTS OF GOODS, FOB	20.9	29.7	25.8	3.0	-2.2	6.1	8.6	13.1	10.7	10.4	11.4
CRUDE PETROLEUM	5.7	22.0	66.6	10.4	-16.8	4.9	3.5	12.0	-1.1	6.2	23.6
EXPORTS OF SERVICES	31.2	10.4	32.0	23.6	-11.8	6.2	15.3	13.4	5.4	10.9	2.8
IMPORTS OF SERVICES	19.6	22.7	34.1	19.8	1.4	7.4	-0.2	8.7	11.9	7.2	8.1
EXCHANGE RATE (PESOS PER U.S.$)	-0.5	0.2	1.8	5.2	8.9	11.6	8.3	10.6	5.2	7.4	6.9
DEC. AVERAGE, 12-MONTH RATE	-0.1	0.5	2.5	7.1	12.8	7.9	10.1	8.3	8.9	7.2	7.6

Source: Chase Econometrics, January 1983.

TABLE 39 (cont)

PHILIPPINES: [illegible] ECONOMIC INDICATORS [illegible]

THE FORECAST FOR SOMALIA

Somalia is the eighth poorest LDC in the world with a per capita annual income level of 80 dollars. Economic growth during the 1970s struggled to keep pace with population growth as high oil prices, drought conditions, armed conflicts with Ethiopia, and influxes of refugess strained the country's weak economic capacity. Economic data for Somalia are unreliaable since it has no official national income accounts. However, it is estimated that real output in 1980 was only 80 percent of the peak 1972 level. Real GDP growth estimated for 1981 ranged from 1 to 4 percent. One speculative estimate for 1982 was a 9.6 percent increase. Price information is limited to a six-category index compiled for only the Mogadishu urban area where price pressures are the highest, thus probably overstating the inflation rate of the nation. This index rose by 23.8 percent in 1979, 59.4 percent in 1980, 44.3 percent in 1981, and 24 percent in 1982.

No comprehensive data on employment exist for Somalia. Over two-thirds of the estimated labor force of 1 million in 1975 are engaged in the [illegible] sectors. [illegible] estimated 7 percent are engaged in the [illegible] sector and [illegible] percent in the service sector. [illegible] and underemployment problems were formally addressed by the central government in its 1974-78 Development Plan. Outflows of workers to the Middle East, particularly [illegible] have reduced the unemployment problem but at the same time resulted in a drain of skilled human

capital.

Livestock exports accounted for 71 percent of export earning in 1979, 77 percent in 1980, and 87 percent in 1981. The main cash crop for agriculture is bananas. Other crops harvested for domestic consumption include maize, sorghum, oilseeds, and sugar cane. Commercial fishing has been undertaken for several years, but Somalia's fishery resources remain significantly unexploited. Somalia's manufacturing sector is very small; its structure is a reflection of the government's desire for import substitution and export industries based on livestock and agricultural products. The most important import substitution industries are textiles and sugar. A petroleum refinery, a joint venture with Iraq, began processing crude oil in 1979.

Data related to the public sector are also fragmented and difficult to interpret. The public sector consists of the central government, 15 regional, 53 district, and 38 nonfinancial public enterprise entities, although the overall authority is centralized. The central government deficit as a percent of overall expenditures was 44.6 percent in 1979 and 38.2 percent in 1980. Fiscal policy was tightened in 1981 and as a result, the overall fiscal deficit decreased to 30 percent of expenditure. Higher levels of foreign financing helped reduce bank financing to one-third of the overall deficit. A continuation of fiscal restraint reduced the deficit to about 26 percent of total

central government expenditure in 1982. Net foreign financing, mainly loans-in-kind, are expected to exceed the budget deficit, resulting in a net contraction of credit from the banking system to the government equal to 6 percent of total credit outstanding. Expansion in net domestic credit rose by 72 percent in 1979. Monetary authorities were able to restrict the expansion of domestic credit to 31 percent in 1980, 17 percent in 1981 and 12 percent during the first three-fourths of 1982.

Somalia's balance of payments has been structurally weak and extremely dependent on foreign grants and concessional loans. Until 1978 the current account pressures on the country's external position was contained by sizable inflows of official aid, maintaining the overall balance of payments in a surplus or balanced state. Conditions worsened in 1979 when the current account deficit swelled to 206 million dollars, and the overall balance of payments turned into a 79 million dollar deficit.

The overall balance of payments recorded a deficit of 28 million dollars in 1980, and the current account improved with livestock exports and transfers for refugee assistance. By 1981, the current account deficit improved to 101 million dollars and the overall balance to 13 million dollars. Preliminary 1982 figures suggest a current account deficit of 95 million and an overall balance deficit of 37 million dollars. The current account improved due to the recovery of exports resulting from

positive weather conditions and two exchange devaluations. Saudi Arabia, other Gulf countries, and Italy account for 87 percent of its exports. Somalia's sources of imports are diversified, with Italy accounting for 35 percent and the U.S. 9 percent.

Somalia's disbursed external debt rose from 597 million dollars in 1979 to 720 million dollars in 1980, 902 million dollars in 1981, and an estimated 1040 million dollars at the end of 1982. Debt service payments amounted to 27.6 million dollars, or 14.0 percent of exports in 1981, 23.8 million dollars, or 11.8 percent of export receipts in 1982, and an estimated 38.7 million dollars, or 17.9 percent debt service ratio in 1983.

The U.S. Government portion of the Somalian public debt service burden is estimated to be 3.8 percent in FY 1983. U.S. FMS loan service is estimated to be 2.9 percent of public debt service in FY 1983. Additional details are provided in Table 30.

Since economic reporting systems are not well developed in Somalia, projections are more difficult than usual. The fact that the country possesses few resources on which to base economic development is undeniable. A considerable portion of the country is semi-arid and vulnerable to frequent and prolonged droughts. The population is heavily nomadic, subsisting on livestock and agriculture. Manufacturing is nearly non-existent. Some exploratory work is being performed along the coastline, but

it is unlikely deposits of commercial significance exist. In summary, Somalia will likely remain an economic basket case in the foreseeable future.[38]

TABLE 30
SOMALIA: DEBT SERVICE ON EXISTING LOANS
(In Millions of US Dollars)

Fiscal Year	All External Debt[1,2] Principal	All External Debt[1,2] Interest	MILITARY US FMS Loans Principal	MILITARY US FMS Loans Interest	ECONOMIC US AID Loans[4] Principal	ECONOMIC US AID Loans[4] Interest	ECONOMIC EX-IM Bank Loans Principal	ECONOMIC EX-IM Bank Loans Interest	ECONOMIC EXP Credit Loans Principal	ECONOMIC EXP Credit Loans Interest	ECONOMIC PL-480 Loans[3] Principal	ECONOMIC PL-480 Loans[3] Interest
82	49.2	15.3	-	-	-	-			-	-	-	-
83	69.3	17.2		2.506	.341	.236					.050	.172
84	69.0	17.7		4.775	.348	.227					.019	.579
85	66.1	18.0	1.234	6.261	.353	.221					.019	1.014
86	82.3	18.0	2.648	6.759	.361	.215					.019	1.013
87	104.8	15.2	2.648	6.506	.369	.207					.019	1.013
88	74.8	12.3	2.648	6.143	.374	.200						
89	75.1	11.1	2.648	5.416	.389	.185						
90			3.136	5.053	.399	.176						

[1] As of December 1981.
[2] Public Debt Only.
[3] As of September 30, 1982.
[4] As of June 15, 1983.

SOURCE: World Bank, U.S. Department of Defense, U.S. Treasury, June 1983.

THE FORECAST FOR SOUTH KOREA

Depending on the pace of the recovery of the U.S. economy, South Korea is expected to show a substantial increase in exports during late 1983. Future economic growth will be based on a continued growth in construction and in manufacturing for merchandise exports. However, the current low level of plant capacity utilization will impede somewhat an expansion in private investment until the export recovery is underway. Coupled with moderation in domestic wage demands and the expected stabilization in benchmark world oil prices, the South Korean GDP is expected to grow at an annual rate between 6.3 and 8.0 percent over the next decade.

The short-term forecast calls for GDP to increase about 6.3 percent in 1983, paced by a 6.5 percent increase in manufacturing, primarily for the export market. The growth of merchandise exports is expected to exceed 10 percent in dollar value, compared to 4.3 percent in 1982. Significantly, the 1983 current account deficit is not expected to change much from the 2 billion dollar level of [illegible]. Inflation will ease [illegible].3 percent in 1982 to 6.5 percent in 1983.

Over the period 1983-87, Chase, Wharton, and the DOD anticipate an annual real GDP growth of about 7 to 8 percent. Inflation may increase after 1985 as the economy approaches full employment capacity, and inflation rates could exceed 7 to 8 per-

cent in 1984 and beyond. In light of the slower growth prospects for imported capital goods and oil, the current account deficit is expected to rise to about 3 to 4 percent of GDP by 1985. Given the somewhat overvalued position of the won and the continued desire of the Korean Government and business to improve international competitiveness, Chase Econometrics and other forecasters expect the won to depreciate at an annual rate of between 5 to 10 percent during the period 1983-87.

Should the U.S. recovery fail to materialize, or if the recovery precipitates another sharp increase in market interest rates, the downside risk for South Korea would be substantial. On the other hand, the U.S. market for South Korean imports could expand at a faster pace, which would result in increased growth rate for South Korean GDP and possibly a higher rate of inflation.

The Korean Government's monetary and fiscal policies for 1983-84 are moderately stimulative compared to the relatively austere policies pursued during 1979-82. The change reflects: (1) growing domestic concerns over rising unemployment and underemployment; (2) the increased policy latitude that recent declines in U.S. interest rates provide; (3) conviction that inflationary pressures and current-account imbalances have been significantly reduced; and (4) increasing confidence that the world economy will emerge from recession.

In terms of fiscal policy, the Korean National Assembly recently passed a 1983 budget that anticipated a 346.7 billion won deficit, the first planned deficit on record. Total spending is projected at 10.4 trillion won, which is 11.8 percent higher than the original and supplementary appropriations for 1982. Of that total, 3.4 trillion won, or 33 percent, is slated for defense. On the revenue side, reduced taxes are expected, especially for corporations. Income tax rates for companies listed on the Seoul Stock Exchange are to decline from 33 percent to 30 percent, while the rate for unlisted companies will fall from 38 percent to 30 percent. In addition, a government proposal to lower personal tax rates has been modified to provide fewer benefits for higher-income brackets, and relatively more for middle- and low-income groups.

One of the most important developments of 1982 proved to be a significant reduction in the deficit on the current account of the balance of payments. Despite the comparatively poor export performance, imports contracted sharply, reflecting the general slowdown in the economy, lower demand and higher prices for petroleum products, and the impact of [illegible] undertaken during 1981 and early 1982. In addition, the net services balance was greatly assisted by the decline in U.S. interest rates, particularly during the second half of 1982, and a strong performance by overseas Korean construction firms.

In 1982, Korea was able to reduce its external funds requirements to about 5 billion dollars, obtained through a mix of official and commercial loans and supplier credits. Short-term foreign obligations were reduced by nearly 500 million dollars to less than 4 billion. A major factor was the reduction in domestic interest rates late last June, which prompted many borrowers to repay their costly foreign borrowings with less expensive domestic borrowings.

Korea's outstanding foreign debt is estimated at 34 billion dollars, including short-term obligations, or more than 52 percent of GDP. The debt-service ratio has risen in the last two years to about 17 percent, due in large part to the weakness of exports, but seems likely to fall back below 15 percent as export growth rebounds and the average level of interest rates continues to decline. Tables 31 through 33 provide additional details.

The U.S. Government portion of the Korean debt service burden is relativelyl small. Total U.S. Government assistance loans, including FMS, Ex-Im Bank, Export Credit, and PL-480 will amount to about 11.4 percent of total Korean foreign debt service in Fiscal Year (FY) 1983. If no new loans are obtained, debt service to the U.S. Government will grow to about 16 percent of the total in 1987, and will drop to about 14.1 percent in 1988.[39]

In FY 1983, U.S. FMS loans will account for about 5.9 percent

of Korea's total foreign debt service. If no new foreign loans are obtained, FMS debt service will drop to about 5.2 percent of the total in 1984, then drop to 4.3 percent in 1985. The percentage will continue to drop in subsequent years if no new FMS loans are obtained.[401] Forecasted Korean debt service figures are provided in Table 31.

Fiscal Year	All External Debt[1,2] Prin	All External Debt[1,2] Interest	MILITARY: US FMS Loans Prin	MILITARY: US FMS Loans Interest	ECONOMIC: US AID Loans[3] Principal	ECONOMIC: US AID Loans[3] Interest	ECONOMIC: Ex-Im Bank Loans[4] Principal	ECONOMIC: Ex-Im Bank Loans[4] Interest	ECONOMIC: EXP Credit Loans Prin	ECONOMIC: EXP Credit Loans Interest	ECONOMIC: PL 480 Loans[3] Prin	ECONOMIC: PL 480 Loans[3] Interest
1982	2034.1	2164.3	--	--	--	--	--	--	--	--	--	--
1983	2299.9	2149.6	170.864	92.945	11.051	9.572	75.243[5]	114.409[5]	16.636	2.548	6.176	5.658
1984	2730.0	1958.2	163.803	81.659	11.513	9.706	177.951	214.638			12.304	10.780
1985	2632.3	1699.1	138.183	66.185	12.382	9.706	246.096	199.289			12.608	10.746
1986	2654.8	1455.5	126.378	[illegible]2.141	12.728	9.309	302.805	196.512			14.390	11.722
1987	2351.6[3]	1096.3[3]	106.733	38.584	13.237	9.130	332.424	185.435			15.293	14.030
[illegible]988	[illegible]37.[illegible]	870.6	68.527	27.796	13.426	8.835	313.299	161.838				
1989	1720.1	675.9	45.734	20.368	13.629	8.509	1,942.6[illegible]5[6]	763.453[6]				
1990	1039.6	530.3	28.732	15.398	13.831	8.185						
1991	930.6	450.2	28.732	11.589	14.040	7.845						

[1]As of December 1981, preliminary.
[2]Public and Private Nonguaranteed.
[3]As of September 30, 1982.
[4]As of March 31, 1983, (Short-term FICA Excluded).
[5]Calendar years. [illegible]983 is last three quarters only.
[6]89 entry f[illegible] 19[illegible] and all subsequent years.

SOURCE: World Bank, U.S. Department of Defense, U.S. Treasury, [illegible] 198[illegible].

TABLE 31
SOUTH KOREA: DEBT SERVICE ON EXISTING LOANS
(In Millions of U.S. Dollars)

FISCAL YEAR	78	79	80	81	82	83	84	85	86	87	88	88
					In Trillions of 1982 Korean Won							
GROSS DOMESTIC PRODUCT	23.03	29.36	35.38	44.78	49.49	55.06	61.81	69.97	78.60	89.76	101.72	16.13
					TRILLIONS OF 1975 KOREAN WON							
GROSS DOMESTIC PRODUCT	13.88	14.87	14.34	15.49	16.28	17.31	18.45	19.71	20.96	22.44	24.00	5.63
					AGGREGATE DEMAND							
PRIVATE CONSUMPTION	8.83	9.63	9.49	9.91	10.41	11.14	11.89	12.64	13.46	14.31	15.28	8.87
GOVERNMENT CONSUMPTION	1.41	1.45	1.47	1.52	1.62	1.65	1.80	1.91	2.02	2.16	2.30	4.67
GROSS FIXED INVESTMENT	5.16	5.66	4.98	4.72	5.33	5.77	6.44	7.14	7.89	8.79	9.76	6.87
STOCK CHANGES AND DISCREPANCY	-0.09	0.51	-0.40	0.86	-1.12	-0.30	-0.66	-1.05	-1.06	-0.41	1.33	
EXPORTS OF GOODS & NF SERVICES	5.81	5.60	6.18	7.21	7.85	8.56	10.11	12.16	14.84	17.88	21.64	12.96
IMPORTS OF GOODS & NF SERVICES	-7.33	-7.96	-7.38	-7.93	-7.78	-9.81	-11.37	-13.43	-16.44	-20.03	-26.36	13.63
					AGGREGATE SUPPLY							
VALUE-ADDED:												
AGRICULTURE	2.65	2.83	2.31	2.73	2.91	3.01	3.12	3.23	3.36	3.46	3.60	3.06
MINING	0.16	0.17	0.17	0.18	0.20	0.21	0.22	0.26	0.28	0.27	0.29	6.09
MANUFACTURING	4.39	4.82	4.76	5.09	5.21	5.55	5.95	6.49	6.89	7.47	7.99	6.17
CONSTRUCTION	0.88	0.89	0.86	0.84	0.91	0.99	1.09	1.21	1.34	1.49	1.64	6.49
UTILITIES	0.31	0.34	0.35	0.37	0.39	0.31	0.33	0.36	0.37	0.41	0.44	7.93
SERVICES	5.89	5.93	6.07	6.40	6.77	7.24	7.78	8.19	8.77	9.35	10.06	6.06
					ANNUAL PERCENTAGE CHANGES							
GROSS DOMESTIC PRODUCT (NOMINAL)	34.5	27.5	20.5	26.6	10.8	11.2	12.3	13.2	12.3	14.2	14.6	
GROSS DOMESTIC PRODUCT (REAL)	11.3	7.1	-3.5	8.0	5.1	6.3	6.6	6.9	6.4	7.0	6.9	
PRIVATE CONSUMPTION	10.3	8.7	-1.6	4.4	5.5	6.6	6.6	6.3	6.4	6.4	6.4	
GOVERNMENT CONSUMPTION	16.2	-0.4	1.9	2.8	6.7	2.2	8.7	6.4	5.6	6.6	6.8	
GROSS FIXED INVESTMENT	39.6	9.7	-12.0	-5.2	13.0	8.2	11.5	11.0	10.5	11.4	10.9	
EXPORTS OF GOODS & NF SERVICES	17.6	-3.6	9.9	17.5	8.7	9.0	18.2	21.0	21.2	20.5	19.9	
IMPORTS OF GOODS & NF SERVICES	-29.1	-8.6	7.7	-7.9	2.2	-22.7	-19.7	-18.0	-22.3	-24.9	-28.0	
VALUE-ADDED:												
AGRICULTURE	-4.0	6.7	-22.0	23.0	7.2	3.4	3.7	3.5	3.4	3.6	3.5	
MINING	4.3	-2.0	-1.0	6.8	6.4	6.7	6.3	6.0	6.4	6.0	6.3	
MANUFACTURING	20.7	9.8	-1.1	6.8	2.4	6.5	7.3	9.1	6.1	8.4	6.9	
CONSTRUCTION	25.3	1.7	-0.6	-5.6	9.1	9.1	9.8	10.6	10.9	11.0	10.6	
UTILITIES	18.8	16.7	6.0	9.0	5.8	7.1	8.0	7.0	5.0	9.7	7.1	
SERVICES	11.0	6.0	2.4	5.5	5.8	7.0	6.7	5.9	7.1	6.6	7.6	
					BALANCE OF PAYMENTS (MILL. US $)							
EXPORTS OF [illegible]	12677.0	14697.0	17220.6	20886.0	21781.4	24175.8	28770.6	33949.5	39719.2	48259.7	58151.1	
IMPORTS OF [illegible]	14435.6	19099.7	21605.4	23871.1	22613.3	25750.0	30800.6	36083.8	41667.9	49902.4	59798.0	
TRADE BALANCE	-1757.8	-4401.9	-4384.9	-2985.1	-831.9	-1574.0	-2029.8	-2134.3	-1948.7	-1642.7	-1646.9	
EXTERNAL [illegible]	11747.3	14204.7	16704.9	19050.7	18299.6	19721.7	21302.8	23600.9	25540.5	27977.1	31326.5	
EXCHANGE RATE, WON/US $	484.0	484.0	607.4	681.0	737.1	832.0	916.1	1005.0	1106.5	1219.5	1341.2	

Source: Chase [illegible], January 1983.

TABLE 32

SOUTH KOREA: MAJOR ECONOMIC INDICATORS

FISCAL YEAR	78	79	80	81	82	83	84	85	86	87	88
MILLIONS OF U.S. DOLLARS											
TRADE ACCOUNT											
TRADE BALANCE	-1780	-4402	-4385	-3005	-832	-1574	-2030	-2136	-1949	-1443	-1647
MERCHANDISE EXPORTS,	12678	14698	17221	20866	21781	24176	28771	33950	39719	45460	50151
FOOD/BEVERAGES/TOBACCO	1052.6	1200.1	1376.1	1661.8	1808.6	2348.5	3019.8	3830.9	4702.1	6019.2	7518.7
RAW/SEMI-PROCESSED MATERIALS	360.1	387.6	344.6	288.7	287.6	300.0	384.3	448.3	498.0	660.1	666.4
CHEMICALS/FUELS/LUBRICANTS	881.3	849.9	813.5	841.1	949.2	1059.2	1266.9	1531.3	1892.1	2197.7	2558.6
MACHINERY/TRANSPORT EQUIPMENT	2587.1	2101.6	3441.0	4711.9	4833.1	5187.8	5984.6	6666.3	8392.9	9882.4	11476.2
MANUFACTURED GOODS	8319.7	9794.9	11824.6	13863.1	13333.8	14782.5	17695.8	20774.8	23734.1	29300.3	35631.8
OTHER/ADJUSTMENTS	-3.0	-336.1	-199.3	-360.6	500.0	600.0	600.0	500.0	600.0	600.0	600.0
MERCHANDISE IMPORTS, FOB	14458	19100	21605	23871	22613	25750	30801	36086	41668	46902	51798
MERCHANDISE IMPORTS, CIF	15454	20498	22803	26131	24818	27641	33119	38080	44804	51659	56299
FOOD/BEVERAGES/TOBACCO	983.1	1502.7	1873.3	2787.0	1861.8	2216.9	2738.3	2604.9	3135.0	3173.8	3337.1
RAW/SEMI-PROCESSED MATERIALS	2498.4	3413.1	3732.9	3766.9	3906.6	4360.7	4727.6	4889.7	5582.8	6124.8	6876.8
CHEMICALS/FUELS/LUBRICANTS	3750.6	5787.8	8473.2	9873.3	8679.3	8338.0	9728.9	12490.3	15307.9	18863.0	23105.0
PETROLEUM PRODUCTS	3209.8	3103.7	5636.1	6316.1	5883.7	5818.6	5923.8	7845.6	9109.3	11883.4	13611.6
MACHINERY/TRANSPORT EQUIPMENT	4946.9	6128.0	4976.7	5960.3	5999.0	6582.9	9868.8	11896.1	13269.0	16831.1	20846.9
MANUFACTURED GOODS	2781.9	3640.3	3122.4	3627.0	3868.7	4462.6	5568.7	6340.6	7820.0	9666.6	11733.3
OTHER/ADJUSTMENTS	492.3	630.5	604.3	135.9	0.0	-300.0	600.0	500.0	500.0	600.0	600.0
SERVICES ACCOUNT											
NET SERVICES	232	-190	-1391	-2007	-1620	-1626	-1867	-2285	-2458	-2731	-3104
FREIGHT & INS., PAYMENTS	-514.6	-766.9	-943.6	-1041.0	-1410.5	-1551.2	-1718.2	-1916.7	-2126.6	-2436.1	-2806.0
FREIGHT & INS., RECEIPTS	394.4	665.9	956.6	1316.4	1447.[illegible]	1553.4	1755.9	1986.1	2230.3	2623.5	3058.6
OTHER TRAVEL & TRANSPORT	-160.3	-465.1	-695.0	-871.6	-1454.[illegible]	-1524.7	-1602.7	-1689.0	-1772.8	-1873.9	-1977.1
DIRECT INVESTMENT INCOME	-50.1	-31.0	-31.3	-36.1	-39.[illegible]	-44.7	-50.6	-57.6	-63.7	-70.9	-78.6
INTEREST PAYMENTS	-967.8	-1463.8	-2596.6	-2940.4	-2313.[illegible]	-2208.3	-2601.4	-2755.5	-2882.9	-3126.1	-3520.7
OVERSEAS CONSTRUCTION EARNINGS	2147.2	2003.2	1750.6	1421.1	2060.0	2000.0	2000.0	2000.0	2000.0	2000.0	2000.0
OTHER SERVICES	-597.3	-36.2	167.9	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0
UNREQUITED TRANSFERS	467.0	639.3	650.3	516.5	500.0	600.0	600.0	500.0	500.0	500.0	500.0
CURRENT ACCOUNT BALANCE	-1089	-4153	-5326	-4478	-1952	-2700	-3397	-3919	-3906	-3674	-4331
	------	------	------	------	------	------	------	------	------	------	------
CAPITAL ACCOUNT											
CAPITAL ACCOUNT BALANCE	1673	4926	6188	4794	2173	4481	4790	5876	5658	6257	7434
DIRECT FOREIGN INVESTMENT	61.3	16.8	-5.2	105.4	100.0	100.0	100.0	100.0	100.0	100.0	100.0
NET LONG TERM CAPITAL	2118.4	5109.9	2190.5	4134.8	1074.0	3320.6	3690.3	4678.1	4658.0	6186.1	6332.8
AMORTIZATION	-1084.3	-1258.6	-1308.0	-1789.0	-1825.0	-1938.3	-2109.2	-2277.0	-2310.3	-2727.6	-2986.5
NET SHORT TERM & OTHER CAPITAL	-507.1	1797.1	4003.2	1090.0	1000.0	1000.0	1000.0	1000.0	1000.0	1000.0	1000.0
ERRORS & OMISSIONS	-330.5	-328.2	-330.6	-536.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RESERVE CHANGE	613	771	863	316	222	1174	1394	1657	1751	2583	3103

Source: Chase Econometrics, January 1983.

TABLE 33
SOUTH KOREA: BALANCE OF PAYMENTS FORECAST (1)

FISCAL YEAR	78	79	80	81	82	83	84	85	86	87	88
					PERCENTAGE CHANGES						
MERCHANDISE EXPORTS, FOB	26.3	15.9	17.3	21.3	4.3	11.0	19.0	18.0	17.0	23.0	20.0
FOOD/BEVERAGES/TOBACCO	-8.1	14.0	6.3	13.0	31.0	26.4	39.6	26.0	33.7	28.0	24.9
RAW/SEMI-PROCESSED MATERIALS	11.7	14.0	-13.3	-13.3	-3.7	6.7	20.3	16.7	33.1	18.5	19.0
CHEMICALS/FUELS/LUBRICANTS	11.2	44.3	47.9	3.6	13.9	10.6	20.6	20.9	23.6	16.2	16.4
MACHINERY/TRANSPORT EQUIPMENT	48.6	19.9	33.6	36.1	1.3	7.6	18.4	16.7	22.3	17.7	16.1
MANUFACTURED GOODS	26.8	17.7	13.3	20.3	-3.7	10.0	19.0	18.1	16.3	23.0	20.9
MERCHANDISE IMPORTS, CIF	36.8	35.2	9.1	14.6	-6.9	13.3	20.3	17.2	15.5	19.0	19.0
FOOD/BEVERAGES/TOBACCO	31.2	61.9	24.7	48.8	-31.2	19.1	23.1	2.8	-24.2	8.3	3.9
RAW/SEMI-PROCESSED MATERIALS	21.9	36.6	10.0	0.4	3.7	11.1	0.9	7.0	10.3	10.6	11.6
CHEMICALS/FUELS/LUBRICANTS	17.2	54.3	46.4	16.8	-11.1	-5.1	16.1	20.8	24.1	10.3	20.6
PETROLEUM PRODUCTS	14.7	40.5	61.7	12.2	-7.6	-6.6	1.6	27.4	20.7	23.9	20.4
MACHINERY/TRANSPORT EQUIPMENT	70.1	33.8	-16.7	19.4	5.0	45.1	16.9	17.8	14.4	26.6	23.9
MANUFACTURED GOODS	46.2	23.7	-9.2	16.2	6.7	15.2	24.8	13.9	23.3	23.4	21.6
NET SERVICES	-13.4	-102.0	-631.6	-44.3	19.5	-0.4	-24.9	-22.4	-7.6	-11.1	-16.6
UNREQUITED TRANSFERS	110.5	-5.9	2.8	16.1	-2.5	0.0	0.0	0.0	0.0	9.0	0.0
CURRENT ACCOUNT BALANCE	-15220.3	-292.0	-30.3	15.9	66.6	-56.2	-20.6	-18.4	0.3	6.9	-17.9
CAPITAL ACCOUNT BALANCE	24.9	194.4	56.7	-22.6	-64.7	206.2	4.9	16.4	1.6	10.6	46.8
RESERVE CHANGE	1-24.4	26.7	11.9	-45.3	-29.0	420.4	18.7	16.9	6.7	47.6	20.2
				FOREIGN DEBT AND RESERVES							
EXTERNAL DEBT (MILL. US$)	11747	14306	16706	19051	18800	20722	21303	22501	25549	27977	32225
DEBT SERVICE (MILL. US$)	2092.0	2722.3	3906.6	4726.4	4136.1	4184.6	4310.6	5032.5	5391.2	5852.7	6606.0
DEBT SERVICE/EXPORTS (%)	16.2	18.6	22.7	22.6	19.0	17.2	15.7	14.8	13.6	12.1	11.2
EXTERNAL DEBT/GDP (%)	24.7	23.6	26.2	29.0	26.0	28.8	28.2	25.2	25.3	25.6	26.2
INT'L. RESERVES (MILL. US$)	4920	5491	6664	6078	7092	8264	9668	11317	13068	15660	18764
IMPORT COVER (MONTHS)	2.0	3.3	3.4	3.2	3.5	3.8	3.5	3.5	3.3	3.5	3.5

Source: Chase Econometrics, January 1983.

TABLE 33 (Cont)

SOUTH KOREA: BALANCE OF PAYMENTS FORECAST (Cont)

THE FORECAST FOR SUDAN

Sudan's current economic situation was succinctly summarized in a National Advisory Council document dated January 5, 1983:

> Sudan's debt situation is unlike any found by official creditors since the second World War. Debt-service obligations to external creditors in 1983 and beyond greatly exceed the capacity of the economy to generate foreign exchange--even under the most optimistic of assumptions about Sudanese adjustment efforts and the external economic environment.

Real GDP fell during the past four years, led by a serious decline in agricultural production in the irrigated agricultural sector. Production of most key crops in 1983 declined as a result of below normal rainfall. Sudan also suffers from an inadequate supply of electricity, a problem unlikely to be solved before late in 1984 or early in 1985. Human resources continue to be drained away by *oil-rich Arab countries*, although their remittances are a welcome source of foreign currency earnings. Inflation moderated slightly from a 1981 level of 40 percent to 35 percent in 1982.

Sudan's [illegible] rising costs of imports coupled with [illegible] caused by poor [illegible] development plans have caused [illegible] than [illegible] relationships between the [illegible] and the [illegible]. During the 1970s, [illegible] which the country had [illegible] and [illegible] serous

costly, ill-conceived industrial projects.

Agriculture is the dominant sector of the economy, accounting for 40 percent of Sudan's gross domestic product, half of its export earnings, and two-thirds of its labor force. Cotton remains the leading cash crop followed by sesame, groundnuts, and gum arabic. Sudan's small industrial sector consists mainly of the processing of agricultural products. Productivity declines have resulted from power outages, labor shortages, political unrest, and lack of spare parts. Chevron's discovery of oil in 1979 and subsequent successful drilling operations have justified the construction of a pipeline for oil exportation. Major export trading partners are Saudi Arabia, the PRC, Italy, the U.S., and the U.S.S.R. Major countries from which imports are purchased are Saudi Arabia, the U.K., the U.S., Germany, and France.

Public sector belt-tightening occurred in 1981 and 1982, including the elimination of subsidies on consumer goods. As a result, the budget deficit as a percentage of GDP declined from 11 percent in 1981 to 8 percent in 1982 and a projected 7 percent in 1983. This also helped reduce the rate of monetary expansion from 50 percent in 1981 to 27 percent in 1982. As suggested earlier, Sudan's external sector is particularly critical. During the 1970s, imports increased at an annual rate of 4.5 percent while exports fell by a similar rate of 4.4 percent per year. The current account deficit swelled from 458 million dollars in

1978 to 788 million dollars in 1981 and 943 million in 1982. Similarly, the overall balance of payments deficit grew rapidly from 74.6 million dollars in 1980 to 518 million in 1982.

Sudan's foreign debt burden was estimated to be 8 billion dollars in 1982, as declines in foreign assistance in the late 1970s combined with the adverse trade conditions made it impossible for Sudan to pay foreign obligations. Conditions became particularly tense in July 1982 when the IMF suspended a standby agreement for covering the 1982 payments gap. The country's capital plant, particularly the transportation sector, continued to deteriorate and vital imports such as pharmaceuticals, pesticides, and fuels were in short supply. The January 1983 IMF standby agreement and February 1983 debt rescheduling agreement have reduced the immediate threat of Sudanese default. Western governments were particularly generous in agreeing to a six-year grace period during which only 50 percent of the interest due must be paid. Sudan has been attempting similar rescheduling arrangements [illegible] creditors.

The [illegible] Sudan's [illegible] burden amounted to [illegible] percent in [illegible] 1983. [illegible] assistance [illegible] percent [illegible] public debt [illegible] percent.

In sum, the economic future for Sudan is very bleak. The government will be required to continue unpopular austerity measures to improve its poor international credit rating and in order to continue to receive IMF assistance. The nation's agricultural problems are not likely to vanish quickly. Sudan's oil reserves will not provide returns until the last half of the 1980s. Her shortfall in trained manpower is not likely to improve as a near bankrupt country finds it difficult to compete for skilled labor. The tremendously inadequate transportation system exacerbates development efforts. The physical infrastructure for production remains exceedingly import-dependent. Sudan's economic mobility is clearly linked to the tolerance level of the IMF and the continued generosity of her credit allies.[41] Details on debt service are provided in Table 34.

[illegible]	[illegible]	[illegible]	MILITARY US FMS Loans Principal	MILITARY US FMS Loans Interest	ECONOMIC US AID Loans[3] Principal	US AID Loans[3] Interest	EX-IM Bank Loans[4] Principal	EX-IM Bank Loans[4] Interest	EXP Credit Loans Principal	EXP Credit Loans Interest	PL-480 Loans[3] Principal	PL-480 Loans[3] Interest
[illegible]	[illegible]	[illegible]	-	-	-	-			-	-	-	-
[illegible]	[illegible]	[illegible]	[illegible]	14.902	.140	.237	2.326[5]	2.747[5]			.145	1.907
[illegible]	[illegible]	[illegible]	[illegible]	15.630	.375	.385	3.854	1.795			[illegible]	2.419
[illegible]	[illegible]	[illegible]	[illegible]	15.525	.400	.328	1.739	1.231			.309	2.433
[illegible]	[illegible]	[illegible]	[illegible]	15.380	.417	.307	1.426	1.095			[illegible]	2.419
[illegible]	[illegible][3]	[illegible]	[illegible]	15.162	.419	.299	1.508	.996			[illegible]	1.013
[illegible]	[illegible]	[illegible]	[illegible]	14.889	.430	.287	2.055	.831				
[illegible]	[illegible]	[illegible]	[illegible]	14.631	.434	.277	[illegible][6]	6.378[6]				
[illegible]	[illegible]	[illegible]	[illegible]	14.244	.426	.266						
	[illegible]											

[illegible]

[5] Calendar years, 1983 is last three quarters only."
[6] For all 1989 entry and all subsequent years.

[illegible] U.S. Department of Defense, U.S. Treasury, June 1983.

TABLE 34

SUDAN: DEBT SERVICE ON EXISTING LOANS
(In Millions of US Dollars)

THE FORECAST FOR THAILAND

Thailand will show moderate growth in economic activity in 1983-84. The stabilization of inventories, falling interest rates, moderation in import resource prices (including oil), and an upturn in the prices of commodity exports all indicate moderate growth in GDP. The short-term forecast calls for real GDP to increase by 5.5 percent in 1983, which follows a 1982 increase of 4.5 percent. Inflation is expected to occur at 8.0 percent, which is somewhat higher than the rate in 1982 (5.8 percent), but lower than the rate in 1981 (13.0 percent).

Thai Government policy has been redirected from fighting inflation to facilitating an upswing in economic activity. The Bank of Thailand has recently encouraged easier borrowing conditions by cutting its first and second tier discount rates. Currently at about 12.5 percent, the first-tier rate has fallen by about 2 points since July 1982, outpacing the slowdown in consumer price inflation. Real interest rates still appear to be quite high, and structural factors in the banking system (e.g., required purchases of [illegible], required lending [illegible] sector at [illegible] rates) have prevented [illegible] lending rates from falling quite as quickly as [illegible] rates. Nevertheless, the policy objective is clear [illegible] to recalibrate domestic [illegible] conditions [illegible] interna- tional interest [illegible] renewed [illegible] investment and production.

On the fiscal side, the FY 1982-83 budget was a compromise--neither as restrained as many had guessed nor as expansionary as in the early 1970s. The government attempted to balance greater debt service liabilities, development and social priorities, security issues, and budgetary support for economic recovery. The result was a spending plan with total outlays (including those to be financed off-budget) rising by about 8 or 9 percent in real terms compared to 1981-82. Real investment showed little or no real gain, and government borrowing increased by about 20 percent. Debt service, moreover, was set to claim a greater proportion of budgetary resources, while government owned public utilities obtained less. Many state enterprises received no direct budgetary allocations, but increased their direct borrowing from the World Bank.

On world markets, imports are expected to increase about 12 percent in 1983, reflecting declining interest rates and an overvalued baht; however, domestic demand for imports is expected to remain somewhat sluggish due to relatively low consumer incomes and low levels of business investment. Exports will rise about 11 percent due to increased world demand for rubber, tin, maize, tapioca, and rice, which are major Thai exports.

The chronic trade deficit is likely to widen to about 2.1 billion dollars compared to an estimated 1.8 billion in 1982. Estimated interest payments of 400 million dollars due in 1983 on

Thailand's increasing public and guaranteed external debt should combine with a deeper trade deficit to push the current account further out of balance. The projected 2.5 billion dollar current account deficit, about 5.7 percent of GDP, should present a lighter burden on the economy than in 1979-80, and should result in total borrowing by the economy of about 3 billion dollars, with some two-thirds coming from commercial markets. This total includes borrowings to increase reserves to a minimum of three months' coverage of total imports of goods and services. This amount, projected at 700 million dollars annually, could easily be covered by Thailand's reserves of gold, if necessary.

In terms of foreign financing, Thailand is likely to be among the beneficiaries of the global reallocation of lending away from troubled borrowers elsewhere. Two further external parameters should also be of some importance: on the negative side, Thailand has very little flexibility in managing its trade in tapioca (used for animal feed) with the EEC, and, on the plus side, a reportedly severe drought in Indonesia reflected particularly strong demand this year for Thailand's rice exports. On balance, the short-term forecast retains a number of [illegible] encouraging aspects for Thailand.

Over the longer term, the Thai economy is expected to grow at between 5 and 6 percent annually over the 1983-88 time period. The government is expected to continue its emphasis on

development of basic infrastructure and technology in agriculture. It will attempt to increase labor productivity and the availability and efficiency of transport, storage, and marketing facilities. These efforts will become increasingly important due to the narrowed scope for growth as a result of enlarging the amount of land under cultivation. On balance, a favorable, if currently more conservative, outlook for commodity prices and the government's balanced approach to development planning should be sufficient to maintain an average annual growth of the agricultural sector at between 3 and 4 percent for the period 1983-88.

Against the backdrop of moderate growth in agriculture, Thailand's industrial sector is expected to lead other sectors in terms of creating new jobs and increasing productivity. Structural adjustments will follow from continued emphasis on privately financed, internationally competitive industry. Previously protected import-substituting industries will give way to more labor-intensive, export-oriented industries. Not strictly following this pattern, natural gas-based industrial development holds out the potential for efficient growth, given the government's intention to reserve most of the envisioned natural gas productive capacity for private development. The government's role in the process will center on providing necessary infrastructure such as utilities, transport, port, pipeline, and necessary linkages in the chain of industrial growth and

articulation. Given the scope for remunerative private activity to follow, the long-term social payback on the investment would appear to be competitive with alternative government investments, for example, in agriculture.

In terms of the balance of payments, the current account deficit increased as a share of GDP from 4 percent in 1975 to 5 percent in 1978 and is expected to be about 6 percent in 1983. As previously noted, this increase in the deficit is due in large part to foreign borrowing for infrastructure investment; the deficit is not a simple function of import oil price increases and falling export commodity prices.

The current Thai Government will continue to encourage private domestic as well as private foreign capital investment. Given the limited prospects for expanding domestic savings in the short-term, the flow of private investment capital will continue to be, for the period 1983-88, heavily dependent upon foreign sources.

Public-sector financing is being conducted on a project-by-project basis, as in the [illegible] positive commitments by the Thai Government indicate a fairly constant current-account deficit in relation to GDP from 1983 to 1988, but with a strong likelihood that the deficit will decrease in the 1990s.

The U.S. Government portion of Thailand's foreign debt service burden is relatively small. Total U.S. Government assistance loans, including FMS, AID, Ex-Im Bank, Export Credit, and PL-480 will amount to about 3.95 percent of total Thai foreign debt service in FY 1983. If no new foreign loans are obtained, debt service to the U.S. Government will grow to about 4.9 percent of the total in 1988.[42] Details are provided in Tables 35, 36, and 37.

In FY 1983, U.S. FMS loans will account for about 1.94 percent of Thailand's total foreign debt service. If no new foreign loans are obtained, FMS debt service will grow to about 2.6 percent in 1988.

Forecasted Thai debt service ratios are expected to rise from 6.6 percent in 1983 to 7.7 percent in 1984, then level off at about 7.2 and 7.4 percent for 1985 through 1987. The debt service ratio for Thailand is particularly sensitive to interest rates, world oil prices, and Thai export commodity prices.[43]

Fiscal Year	All External Debt[1,2] Principal	Interest	MILITARY: US FMS Loans[7] Principal	Interest	ECONOMIC: US AID Loans[3] Principal	Interest	EX-IM Bank Loans[4] Principal	Interest	EXP Credit Loans Principal	Interest	PL-480 Loans Principal	Interest
82	[illegible]94.3	703.2	9.598	9 177	-	-	-	-	-	-	-	
83	91[illegible].6	735.2	17 736	14.792	1.577	1.411	18.587[5]	11.088[5]	.561	.089		
84	1052.4	727.1	12 476	18.809	1.652	1.639	25.571	10.869			.406	
85	[illegible].2	678.3	12.868	20.015	1.746	1.799	28.066	9.522			.406	
86	[illegible].7	625.6	16.904	18.849	1.942	1.878	28.996	8.025			.406	
87[3]	1009.3	568.0	19.902	16.738	2.073	1.953	27.269	6.175			.406	
88	92[illegible].7	492.0	23 626	14.160	2.332	2.002	25.314	4.444				
89	77[illegible].1	[illegible].7	22 626	11.410	2.190	1.946	47.141[6]	5.781[6]				
90	63[illegible].3	367.4	23.626	8.659	2.639	2.006						
91	60[illegible].2	370.0	17.080	6.130	2.219	1.876						

[1] As of December 1982.
[2] Public and Private Nonguaranteed.
[3] Public Debt only, 1987-91.
[4] As of September 30, 1982.
[5] As of March 31, 1983.
[6] 1989 Entry for 198[illegible] and all subsequent years.
[7] FMS principle and interest include actual payments for FY1982 and the first eight months of 1983, and projected payments for the remaining four months of FY 1983 and subsequent years.

SOURCES: World Bank, U.S. Department of Defense, U.S. Treasury, June 83

TABLE 35

THAILAND: DEBT SERVICE ON EXISTING LOANS
(In Millions of US Dollars)

	77	78	79	80	81	82	83	84	85	86	87
CURRENT ACCOUNT:											
EXPORTS OF GOODS, FOB	3454.0	4045.0	5234.0	6449.0	6900.0	6583.9	7293.3	8618.0	10340.0	12035.3	13750.2
IMPORTS OF GOODS, FOB	4247.0	4913.0	6787.0	8352.0	8910.0	8357.2	9387.6	10688.3	12807.9	14560.9	16545.7
IMPORTS OF CRUDE PETROLEUM	805.4	811.6	1145.5	1917.2	2150.8	2016.8	1941.4	1902.5	2047.8	2097.6	2145.7
TRADE BALANCE	-793.0	-868.0	-1553.0	-1903.0	-2010.0	-1773.3	-2094.3	-2070.3	-2467.9	-2525.6	-2795.6
EXPORTS OF SERVICES	724.0	1088.0	1428.0	2126.0	2333.0	2486.6	2686.6	2921.2	3183.9	3629.5	3770.5
IMPORTS OF SERVICES	1068.0	1413.0	2021.0	2509.0	3009.0	2982.5	3260.6	3686.2	4105.5	4623.5	4877.4
INTEREST SERVICE, PUBLIC	50.2	96.7	146.9	247.6	210.0	322.6	874.7	530.0	565.7	581.7	682.1
UNREQUITED TRANSFERS, NET	40.0	40.0	60.0	209.0	163.0	172.8	183.1	194.[illegible]	205.8	218.1	231.2
CURRENT ACCOUNT BALANCE	-1097.0	-1153.0	-2086.0	-2078.0	-2523.0	-2096.5	-2485.2	-2641.2	-3183.7	-3301.5	-367[illegible]
CAPITAL ACCOUNT:											
FOREIGN DIRECT INVESTMENT	106.0	50.0	51.0	187.0	285.0	256.5	256.5	269.3	282.8	296.9	311.8
AMORTIZATION, PUBLIC	63.4	98.2	129.1	188.3	206.0	263.1	284.8	364.1	436.9	528.4	617.4
ERRORS AND OMISSIONS	43.0	-232.0	20.0	-172.0	89.0	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE OF PAYMENTS	103.0	188.0	-22.0	-170.0	-33.0	-837.2	746.1	479.4	691.0	624.2	747.6
LOAN AND FINANCING REQUIREMENTS	1114.4	1621.2	2122.1	2051.3	2322.0	1266.0	3258.6	3285.4	4028.8	4157.1	4726.3
DEBT POSITION											
PUBLIC EXTERNAL DEBT	1066.3	1709.3	2701.0	3604.0	4826.0	5289.7	6842.3	8314.9	10136.1	11933.8	13896.0
DEBT SERVICE RATIO	3.5	4.8	5.3	6.3	4.6	6.5	6.6	7.7	7.4	7.2	7.6
INTEREST RATE, EURO DOLLAR	6.3	9.1	12.1	13.9	15.7	14.2	11.4	12.2	12.8	13.9	12.8
EXCHANGE RATE											
BAHT PER U.S.$	20.4	20.3	20.4	20.5	21.8	23.0	23.0	23.7	24.2	24.9	25.5
ANNUAL PERCENTAGE CHANGES											
EXPORTS OF GOODS, FOB	16.7	17.1	29.4	23.2	7.0	-4.6	10.8	18.2	20.0	16.4	14.2
IMPORTS OF GOODS, FOB	36.0	15.7	38.1	23.1	6.7	-6.2	12.3	13.9	19.8	13.7	13.6
IMPORTS OF CRUDE PETROLEUM	18.7	0.8	41.1	67.4	12.6	-6.6	-3.7	-1.7	7.4	2.4	2.3
EXPORTS OF SERVICES	5.5	50.3	31.3	48.8	9.8	6.6	8.0	8.7	9.0	7.7	9.9
IMPORTS OF SERVICES	10.9	32.3	43.0	24.1	19.9	-0.9	9.3	13.1	11.4	7.7	10.3
EXCHANGE RATE	0.0	-0.3	0.4	0.3	6.6	5.4	0.0	3.0	2.0	3.0	2.5
DEC. AVERAGE, 12-MONTH RATE	0.0	-0.2	0.3	1.0	11.5	0.0	0.0	4.0	2.5	2.7	2.0

Source: Chase Econometrics, January 1983

TABLE 36

THAILAND: BALANCE OF PAYMENTS FORECAST
(In Millions of US Dollars)

NATIONAL ACCOUNTS

	77	78	79	80	81	82	83	84	85	86	87	77-87
BILLIONS OF BAHT												
GROSS DOMESTIC PRODUCT	393.03	469.95	556.24	684.93	803.16	889.59	1006.75	1156.86	1321.00	1512.69	1726.42	15.95
BILLIONS OF 1972 BAHT												
GROSS DOMESTIC PRODUCT	237.17	261.10	276.93	292.85	315.11	329.29	347.48	368.24	388.50	409.86	432.41	6.19
AGGREGATE DEMAND												
PRIVATE CONSUMPTION	156.46	166.86	177.20	185.64	195.39	200.66	206.22	218.56	231.64	242.15	254.08	4.84
GOVERNMENT CONSUMPTION	27.27	31.62	36.36	37.35	40.42	42.24	45.56	47.52	49.52	52.01	54.92	7.25
GROSS FIXED INVESTMENT	59.83	64.18	69.23	71.43	73.52	76.24	82.24	88.89	95.35	100.63	107.73	6.06
EXPORTS OF GOODS AND SERVICES	39.56	44.81	48.81	57.11	61.68	65.30	68.89	73.53	77.60	83.06	87.43	8.06
IMPORTS OF GOODS AND SERVICES	38.76	54.28	66.29	65.83	65.89	67.50	71.74	76.41	81.00	84.07	90.41	5.58
AGGREGATE SUPPLY												
VALUE ADDED:												
AGRICULTURE	65.94	72.51	71.41	72.76	76.24	76.65	79.33	82.42	85.56	88.19	91.94	3.44
MINING	3.93	4.10	4.53	4.78	4.94	5.32	5.95	6.45	6.96	7.51	7.79	8.25
MANUFACTURING	40.07	52.52	57.84	60.60	65.45	67.67	69.93	75.41	81.27	85.95	91.12	6.60
CONSTRUCTION	12.00	13.58	14.55	16.58	17.44	17.76	18.07	20.56	22.36	23.67	25.05	7.64
UTILITIES	4.16	4.58	5.18	5.56	6.11	6.48	6.71	7.27	7.87	8.35	8.87	7.91
SERVICES	103.94	113.88	123.40	132.56	144.93	155.21	166.60	176.13	186.07	196.38	207.63	7.11
ANNUAL PERCENTAGE CHANGES												
GROSS DOMESTIC PRODUCT (NOMINAL)	15.4	19.6	18.4	23.1	17.3	10.8	13.2	14.9	14.4	14.4	14.1	
GROSS DOMESTIC PRODUCT (1972)	7.2	10.1	6.1	5.8	7.6	4.5	5.5	6.0	5.5	5.8	5.5	
PRIVATE CONSUMPTION	6.4	6.3	6.2	4.0	5.2	2.7	2.9	6.0	6.0	6.8	4.9	
GOVERNMENT CONSUMPTION	9.8	16.7	48.9	1.5	6.2	4.5	7.9	4.3	4.2	5.0	5.6	
GROSS FIXED INVESTMENT	32.8	7.3	7.9	3.2	2.9	3.7	7.9	6.1	7.3	5.5	7.1	
EXPORTS OF GOODS AND SERVICES	3.5	11.0	8.9	17.0	8.0	5.9	5.5	6.8	5.5	7.0	5.5	
IMPORTS OF GOODS AND SERVICES	34.7	3.7	21.3	-0.7	6.1	2.5	6.3	6.6	6.0	6.3	5.5	
VALUE ADDED:												
AGRICULTURE	-0.6	10.6	-1.5	1.9	4.7	0.8	3.2	3.9	3.8	3.1	4.3	
MINING	21.3	16.4	10.6	5.5	3.4	7.7	11.9	8.4	7.9	7.9	3.7	
MANUFACTURING	13.0	9.3	10.3	4.8	8.0	3.4	3.3	7.8	7.6	5.8	6.0	
CONSTRUCTION	19.7	13.2	7.1	13.9	5.2	1.8	6.3	8.9	6.8	5.4	6.3	
UTILITIES	11.8	8.6	15.1	7.6	9.9	6.1	3.6	8.3	5.2	6.1	6.3	
SERVICES	6.0	9.6	8.4	7.4	9.3	7.1	7.3	5.7	4.7	6.4	5.8	

Source: Chase Econometrics, January 1983

TABLE 37

THAILAND: MAJOR ECONOMIC INDICATORS FORECAST

THE FORECAST FOR TUNISIA

Over the past ten years, Tunisia's real GDP has increased at an average annual rate of 6.6 percent. The positive performance of domestic macroeconomic variables has contributed to a relatively high level of socioeconomic development in this Arabic country, located in Northern Africa. In 1980, GNP per capita was $1,310, compared to the $500 average for other African countries, excluding Libya. Moreover, the adult literacy rate of 62 percent and life expectancy of 60 years are also much higher than the norm for other countries in the region.

Tunisia's rich natural resources have been a major factor behind the country's high level of development and strong economic performance during the last decade. The country not only has substantial phosphate and petroleum reserves, but also produces olive oil and other agricultural commodities. In addition, export capabilities in textiles, leather products, and mechanical-electrical goods reflect the strength of the manufacturing sector.

The [illegible] contributed to the strong growth and low [illegible] which the country has achieved during the last ten years. Throughout the 1970s, policy [illegible] concentrated on the [illegible] of exports, tourism, [illegible] domestic [illegible], in

order to improve the efficiency of the allocation of resources, the government sought to reduce the state's role in the economy.

In order to maintain low inflation, however, Tunisia has maintained low prices for basic foods and fuels through a complex system of price controls and subsidies. In addition to causing economic distortions and recent social disturbances, these expenditures on subsidies have represented a major drain on the government budget, amounting to over 10 percent of current spending.

Along with the problems associated with price controls and subsidies, Tunisia presently faces a number of economic issues which the country needs to resolve if it is to continue its pattern of stable growth and development:

> Tunisia's chief socioeconomic problem is high unemployment. According to official figures, the unemployment rate last year was 12.9 percent, but unofficial estimates place the rate of 20 percent, with 40 percent unemployment among males aged 16 to 18.
>
> Between 1977 and 1981, agricultural production declined at an average annual rate of 1.4 percent. The agricultural sector, which employs 35 percent of the workforce and accounts for 8.6 percent of exports of goods and services, is very important to the economy.
>
> Despite 25.9 percent average annual growth of exports over the past decade, the balance of trade deficit has steadily widened,[44] from $140 million in 1972 to $1.1 billion in 1981.

In 1982, real GDP growth slowed to 3.4 percent, reflecting a decline in petroleum export revenues stemming from reduced

domestic production and the 8.7 percent decline in world prices. In addition, phosphate revenues and tourism were also depressed, while a 38 percent drop in olive oil production resulted in stagnant agricultural growth. Investment, however, expanded 10 percent, facilitated by the growing role of joint development banks with such Arab countries as Saudi Arabia, Kuwait, and Algeria.

The increase in the current account deficit resulted primarily from continued deterioration in Tunisia's terms of trade. Petroleum prices declined 8.7 percent, while phosphate prices were stagnant in 1982. In response, the government has been attempting to restrain the growth of imports through controls on the availability of foreign exchange for nonfood consumer goods and through measures to reduce consumption through the encouragement of savings and restrictions on consumer credit. However, due to the reduction in export growth, the balance of trade deficit widened to 1.1 billion in 1981 to 1.4 billion in 1982.

The Tunisian economy will have mixed results in 1983. Overall [illegible] production [illegible] about [illegible] percent. After [illegible] into account the difficulties [illegible] tourism and agriculture [illegible] officials [illegible] project a 4 [illegible] GNP at constant prices (compared to 6 percent planned growth). This estimate [illegible] a bit optimistic [illegible] however [illegible] if [illegible] [illegible] improvement [illegible] will [illegible] eliminate, and [illegible] to [illegible] some real [illegible] the

financial (balance of payments and government budget) side.

The trade deficit through July 1983 was up 25 percent. If this trend continues, the total deficit for the year would be 1.2 to 1.4 billion dollars, with weakened tourism earnings and worker remittances below the hoped for levels. There will be a need for external credit to finance balance of payments deficits. This is reflected by the government's efforts to maximize use of U.S. blended credit for grain purchases--more usually a cash transaction. Also, the government has recently approached banks for a 120 million dollar credit. Tunisia's credit rating remains strong and there should be no problem in getting this loan at favorable terms. (Some visiting U.S. bankers have recently told the American Embassy officials that Tunisia should still be able to borrow at their banks' internally set minimum lending rates.)

In a recent assessment of the Tunisian economy, Banque Centrale de Tunisia has warned of the painful consequences of excessive national debt, especially foreign held debt, and recommended self-reliance. It has also called for "more rigour" in exploiting resources and tighter surveillance of foreign operations to avoid an "unjustified hemorrhage" of foreign exchange. The recommendations are contained in their 1982 annual report, published in August, 1983. The report suggests manufacturing and export diversification, and measures to encourage private business to reinvest and increase export efforts. The

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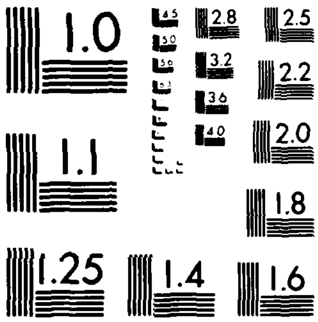

MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS 1963 A

recommendations follow up a general survey of 1982 economic difficulties. The survey said 1982 growth failed to reach either planned targets or previous levels. This was because of the world economic crisis, lower output--and prices--of Tunisia's chief exports, oil and phosphates, and poor crops following bad weather. Manufacturing slowed down. The net result was lower foreign exchange revenues and deteriorating terms of trade. Domestic consumption had flourished unchecked, fueling inflation, but, because capital inflows outweighed the current account deficit, an overall payments surplus was maintained for the fifth consecutive year, "weak" though it was. The central bank said that, although healthier economic activity might eventually resume, the immediate outlook was bleak.

Table 38 gives a current picture of the Tunisian economy, while Table 39 provides forecast figures of future performance. If world conditions continue to improve, 1984 should be a year of solid economic performance.

Tunisia presently has a public external debt of $3.5 billion, the equivalent of slightly over 30 percent of annual GDP. The debt service to exports ratio is 12.8 percent and, according to official plans, this measure will increase to 15 percent by the middle of the decade. As a consequence of the relatively small debt burden of the country, foreign borrowing is expected to remain a viable option for financing growth during the forecast

period. As Table 40 shows, FMS financing costs are a very small part of total debt service.

The major factor affecting the forecast of the Tunisian economy concerns the future path of world oil prices and domestic petroleum production. More positive trends for either of these variables would result in much stronger growth prospects than presently expected. In turn, more negative trends could result in slower growth and possibly some political risk, relating to the probable exacerbation of the country's unemployment problem stemming from reduced economic activity.

Fiscal Year	External Debt[1,2] Principal	External Debt[1,2] Interest	MILITARY: US FMS Loans Principal	MILITARY: US FMS Loans Interest	ECONOMIC: US AID Loans[3] Principal	ECONOMIC: US AID Loans[3] Interest	ECONOMIC: EX-IM Bank Loans[4] Principal	ECONOMIC: EX-IM Bank Loans[4] Interest	ECONOMIC: EXP Credit Loans Principal	ECONOMIC: EXP Credit Loans Interest	ECONOMIC: PL-480 Loans[3] Principal	ECONOMIC: PL-480 Loans[3] Interest
82	314.5	200.4	-	-	-	-	-	-	-		-	-
83	355.6	197.1	16.634	12.227	6.776	5.055	5.844[5]	5.245[5]			5.440	2.616
84	354.5	182.4	14.668	14.338	7.142	5.122	10.907	7.213			5.841	2.455
85	339.1	165.0	19.914	19.339	7.274	5.053	13.051	5.813			5.841	2.358
86	329.6	146.1	33.279	18.919	7.409	4.896	13.559	4.741			5.841	2.182
87	282.9	128.0	27.183	15.739	7.544	4.723	12.274	3.580				
88	276.9	114.9	24.112	12.759	7.679	4.523	11.388	2.611				
89	267.8	101.7	22.850	10.143	8.375	4.338	39.903[6]	10.342[6]				
90			22.512	7.679	9.046	4.282						
91			22.512	5.238	9.336	3.996						

[1]As of December 1981.
[2]Public Debt Only.
[3]As of September 30, 1982.
[4]As of March 31, 1983, short-term FICA excluded

[5]Calendar years, 1983 is last three quarters only.
[6]For all 1989 entry and all subsequent years.

TABLE 38

T[illegible]A: DEBT SERVICE ON EXISTING LOANS
(In millions of US Dollars)

SOURCE: [illegible], U.S. Department of Defense, U.S. Treasury, June 1983.

	71	72	73	74	75	76	77	78	79	80	81
REAL SECTOR BILLIONS OF 1972 DINARS											
GROSS DOMESTIC PROD.	.915	1.078	1.082	1.186	1.302	1.385	1.445	1.565	1.684	1.798	1.915
% CHANGE	10.9	17.8	0.4	9.6	9.8	6.4	4.3	8.3	7.6	6.8	6.5
PRIVATE CONSUMPTION	0.610	0.694	0.747	0.849	0.866	0.927	1.008	1.100	1.188		
% CHANGE	9.8	13.8	7.6	13.7	2.0	7.1	8.7	9.2	7.9		
GOVT. CONSUMPTION	0.141	0.156	0.167	0.178	0.195	0.227	0.256	0.276	0.287		
% CHANGE	0.1	10.5	7.4	6.4	9.3	16.5	13.1	7.6	4.0		
INVESTMENT	0.180	0.214	0.216	0.239	0.300	0.343	0.363	0.390	0.433		
% CHANGE	11.7	18.8	0.7	11.0	25.4	14.4	5.8	7.4	11.0		
INCREASE IN STOCKS	0.009	0.026	-0.009	0.018	0.037	0.014	0.013				
EXPORTS	0.216	0.271	0.246	0.261	0.276	0.310	0.328	0.329			
% CHANGE	16.8	25.0	-9.2	6.3	5.6	12.6	5.6	0.4			
IMPORTS	0.242	0.283	0.284	0.359	0.371	0.437	0.510	0.560			
% CHANGE	9.7	16.9	0.4	26.5	3.3	17.9	16.5	9.9			
TRADE SECTOR(BILLIONS OF U.S. DOLLARS)											
EXPORTS OF GOODS	0.214	0.313	0.416	0.872	0.799	0.781	0.776	0.927	1.538	1.805	2.480
PET. EXPORTS	0.055	0.081	0.124	0.314	0.359	0.323	0.375	0.407	0.804	1.117	1.331
IMPORTS OF GOODS	0.334	0.453	0.622	0.972	1.238	1.425	1.604	1.776	2.467	2.862	3.627
PET. IMPORTS	0.007	0.017	0.024	0.074	0.086	0.106	0.103	0.086	0.196	0.277	0.510
TRADE BALANCE	0.120	-0.140	-0.206	-0.100	-0.439	-0.644	-0.828	-0.849	-0.929	-1.057	-1.147
CURRENT ACCOUNT BALANCE	0.007	-0.004	-0.059	0.048	-0.170	-0.409	-0.579	-0.477	-0.306	-0.324	-0.639
PETROLEUM PRODUCTION, MIL.B/D							0.095	0.100	0.100	0.110	0.118
DEBT POSITION(BILLIONS OF U.S. DOLLARS)											
TOTAL EXTERNAL DEBT		1.117	1.306	1.519	1.764	2.436	3.332	4.068	4.464		
PUBLIC LONG TERM DEBT		1.117	1.306	1.519	1.730	2.257	3.156	3.901	4.513	4.607	
AMORTIZATION		0.072	0.061	0.061	0.066	0.062	0.089	0.115	[illegible]	0.222	
INTEREST PAYMENTS		0.023	0.028	0.031	0.035	0.037	0.055	0.095	0.159	0.191	
PRICES AND POPULATION											
POPULATION-THOU.	5200	5280	5330	5460	5610	5770	5930	6080	6240	6370	[illegible]
% CHANGE	1.4	1.5	0.9	2.4	2.7	2.9	2.8	2.5	2.6	2.1	[illegible]
% CHANGE CPI	5.9	1.9	4.7	4.1	9.5	5.4	6.6	5.3	7.8	10.0	[illegible]
EXCHANGE RATE [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Source: Chase Econometrics International Forecasting Service

TABLE 39

TUNISIA: ECONOMIC INDICATORS

	78	79	80	81	82	83	84
BILLIONS OF 1972 DINARS							
GROSS DOMESTIC PROD.	1.565	1.684	1.798	1.915	1.980	2.000	2.126
% CHANGE	8.3	7.6	6.8	6.5	3.4	1.0	6.3
EXTERNAL SECTOR (BILL. U.S. $)							
TOTAL EXPORTS	0.927	1.538	1.805	2.480	2.753	3.086	3.817
% CHANGE	19.5	65.9	17.4	37.4	11.0	12.1	23.7
TOTAL IMPORTS	1.776	2.467	2.862	3.627	4.175	4.830	5.632
% CHANGE	10.7	38.9	16.0	26.7	15.1	15.7	16.6
TRADE BALANCE	-0.849	-0.929	-1.057	-1.147	-1.422	-1.744	-1.815
CURRENT ACCOUNT BAL.	-0.477	-0.306	-0.324	-0.639	-1.122	-1.344	-1.315
PRICES AND POPULATION							
POPULATION-THOU.	6080	6240	6370	6510	6653	6800	6949
% CHANGE	2.5	2.6	2.1	2.2	2.2	2.2	2.2
% CHANGE CPI	5.3	7.8	10.0	8.9	12.9	14.0	14.5
EXCHANGE RATE (NCU/$)	0.42	0.41	0.41	0.49	0.61	0.68	0.75

	85	86	87	88	89	90	91
BILLIONS OF 1972 DINARS							
GROSS DOMESTIC PROD.	2.264	2.382	2.501	2.621	2.747	2.876	3.011
% CHANGE	6.5	5.2	5.0	4.8	4.8	4.7	4.7
EXTERNAL SECTOR (BILL. U.S. $)							
TOTAL EXPORTS	4.672	5.691	6.926	8.318	9.956	11.808	13.851
% CHANGE	22.4	21.8	21.7	20.1	19.7	18.6	17.3
TOTAL IMPORTS	6.617	7.802	9.035	10.363	11.803	13.432	15.272
% CHANGE	17.5	17.9	15.8	14.7	13.9	13.8	13.7
TRADE BALANCE	-1.945	-2.111	-2.109	-2.045	-1.847	[illegible]	-1.421
CURRENT ACCOUNT BAL.	-1.345	-1.41[illegible]	-1.597	[illegible]	-1.347	[illegible]	-0.721
PRICES AND POPULATION							
POPULATION-THOU.	7102	7258	7418	7581	7748	[illegible]	7918
% CHANGE	2.2	2.2	2.2	2.2	2.2	2.2	0.0
% CHANGE CPI	14.6	15.9	15.3	14.9	14.8	13.2	12.8
EXCHANGE RATE (NCU/$)	0.88	0.89	0.98	1.05	1.14	1.23	1.33

Source: Chase Econometrics International Forecasting Service

TABLE 40

TUNISIA: MAJOR ECONOMIC INDICATORS

THE FORECAST FOR TURKEY

Turkey's real GDP growth rate will average less than 5 percent per annum over the 1981-91 decade. This forecast assumes that world economic activity will show a general improvement beginning in 1983-84, and improvement will continue for the remainder of the decade. Also, the forecast assumes that Turkish goods and services will remain competitive on world markets, that commercial foreign credit will continue to be available to the Turkish Government and to industry, and that current government price, wage, and interest controls will be dismantled in the 1983-84 time frame.[45]

The Turkish economy suffers from four major structural problems: a higher rate of labor force growth compared to the rate of new job creation, a relatively low proportion of the labor force employed in domestic industry, a high rate of foreign borrowing, and finally, a chronic deficit in the balance of trade.

Over the past 20 years, the Turkish population has increased at an average rate of 2.5 percent annually. Consequently, the labor force has continued to increase by about 500 thousand workers per year. However, the Turkish economy has created only about 200 thousand new jobs per year. The result is a chronic and increasing unemployment problem. This problem has been alleviated somewhat over the past decade by a near record migration of Turkish workers to more industrialized European coun-

tries. However, many of these expatriate workers were forced to return home during the 1980-81 European recession, which worsened the domestic unemployment problem and added to domestic labor unrest.

During the period 1975-82, the chronic Turkish balance of payments deficit, the relatively low rate of domestic savings compared to domestic investment, and the low level of private foreign investment led to an increased dependence on foreign borrowing and an ever increasing debt service ratio. This situation was, of course, exacerbated by the sharp rise in imported oil prices during the same period.

Turkey's recent economic problems: recession, a balance of payment deficit, and a high rate of inflation, were in part due to the Turkish Government's reliance on a policy of rapid domestic economic growth. In spite of the world-wide recession, balance of payments problems, and increasing foreign debt, the government continued to maintain high levels of government expenditure, large annual budget deficits, and an ever expanding money supply. Internal demand rose rapidly as a result of large increases in public consumption and development investment, the budget deficit as a percent of GDP increased, and inflation increased to about 30 percent in 1981.

However, the Turkish Government's expansionary fiscal and

monetary policies tended to sustain an average real GDP growth rate of 8.6 percent during the 1973-76 time frame. During the latter seventies, the increasing balance of trade deficit, the rise in world benchmark oil prices, the decline of expatriate worker's remittances, the increasing debt service burden, and the drying up of foreign private investment eventually caused the domestic boom to collapse. By mid-1977, Turkey was virtually bankrupt, and remained in serious trouble until the takeover of the government by the military in 1980.

Many of the policies introduced by the military government had short and medium term economic effects: reduced public sector deficits, higher taxes, tighter controls on expenditures, lower domestic credit ceilings, depreciation of the lira, and wage, price, and import controls resulted in decreased inflation, increased savings, and a turnaround in the export market for Turkish goods. Real GDP rose by 4.2 percent in 1981, compared to a 0.6 percent decline in 1980.

In 1982, real GDP grew by about 3.4 percent, down somewhat from the rate in 1981. The lower rate was due primarily to the continued world-wide recession. Industrial output rose about 5 percent compared to 7.6 percent in 1981, and agricultural production increased about 3 percent. Exports rose about 6 percent, and the trade deficit declined from 4.2 billion dollars in 1981 to about 4.1 billion in 1982. The current account deficit

contracted to about 1.9 billion dollars, the lowest level since 1979. However, inflation increased to about 40 percent in 1982 compared to 30 percent in 1981. This increase was due, in part, to large depreciations in the international value of the Turkish lira, which increased import prices. Also, there was a significant increase in the money supply during 1982.

Turkey's real GDP growth rate increased somewhat in 1983 compared to 1982, due primarily to the general increase in European economic activity during the same period. Turkey's exports continued to expand in 1983, and the current account and trade deficits continued to decline. Additional tax reforms and higher tax revenues will tend to reduce the government budget deficit, which eased the pressure on financial markets and reduced inflation.

For 1984 and beyond, the outlook for the Turkish economy depends, in large part, upon the growth rate of exports. Turkey's comparative advantage lies in agricultural and forest products, minerals, relatively inexpensive labor, and its location as a major East-West nodal point of world trade.

The Middle East has assumed increasing importance as a market for Turkish exports. Apart from processed food, the principal Turkish export commodities to this region include clothing, automotive products, iron and steel products, cement, and glass. Despite the growing value of Mid-Eastern trade to Turkish firms,

exports from Turkey represent only a small proportion of the manufactured imports to these countries. Although there should be a cautious interpretation of the recent upsurge in sales to warring Iran and Iraq, Turkey has excellent possibilities to export relatively simple engineering goods, processed foods, cement, and various chemicals to the markets of the Middle East.

The rapid growth of exports to the Middle East and the slow expansion of exports in textiles and clothing have reduced the share of European Common Market countries in Turkish manufactured export trade. Nevertheless, this share was estimated at 29 percent in 1982, and there is the potential for Turkey to expand its exports to the European Economic Community (EEC) under the association agreement that provides for preferential entries. This, however, would require a substantial change in Turkey's export mix, since textiles and clothing are subject to quotas under the multi-fiber agreement. While quotas for several products have not been binding and expectations are that Turkey would receive preferential treatment in the allocation of future quotas, much of the expansion in textiles and clothing exports to EEC markets would have to take the form of upgrading product composition and quality. On the other hand, the EEC provides a large growing market for sophisticated engineering products. Although Turkey may be able to produce these goods in large quantities in the future, it certainly is not able to do so now.

Thus, there is substantial potential for expansion of Turkish manufactured goods exports during the period 1984-91. However, there are also factors which may prevent this expansion. First, rapid increases in Turkish exports since September 1980 have responded to government incentives, a more stable political and economic climate, and the availability of unused capacity. Once domestic demand begins to rise significantly, high export growth can be maintained only if substantial export-oriented investments are undertaken. A second factor which may hinder further export growth is the recent heavy reliance on export credits and tax rebates to private industries. This system of subsidies has a number of disadvantages. Export subsidies are subject to retaliation under GATT rules. Developed countries may apply retaliatory measures, once Turkish exports substantially increase in value. Also, retention of the subsidy system tends to increase public-sector deficits and, thus, to increase inflationary pressures on the economy. A third export-retarding factor involves Turkey's present export mix, which is almost entirely composed of nondurable consumer goods. If Turkey is to sustain its export growth rate, the mix of goods exported will have to involve increasing amounts of durable goods and engineering products. Although nondurable consumer goods do not require sophisticated technologies in either sales or production, these goods will inevitably face formidable competition from other low labor cost exporters in the Far East and Latin America. In addition,

certain nondurable good imports are being shut out of European markets. At the same time, expanding the electrical and non-electrical machinery, machine tools, and electronics industries in Turkey will take time, probably longer than a decade, if the examples of Japan, Korea, and Taiwan are comparable.

Turkey's total export growth rate will decline in volume terms from a present rate in excess of 20 percent per annum to about 15 percent per annum during the 1984-91 period. However, Turkey should be able to continue its export of some of its surplus labor, and remittances will grow moderately during the 1984-91 period. Remittances of profits from the execution of engineering contracts in Middle Eastern countries and net earnings from tourism are also expected to increase.

As for imports, an elasticity of 1.2 with respect to real GDP was calculated based on historical data, although it was difficult to establish a statistically significant relationship between import volume demand and real GDP based on an annual time series for the last decade. Despite an energy conservation program, Turkey may be expected to import oil at a faster rate than the growth of output. Under these assumptions, the real GDP growth rate from 1984-91 should average only 5 percent per annum, which is a rate far short of that necessary to reduce the present high level of unemployment. Any higher rate of real GDP growth would lead to a current-account deficit which could not be

financed, given Turkey's debt-service ratio of 28 percent. Forecasts of Turkey's major economic and balance of payments indicators for the period 1978-91 are included in Table 42.

The U.S. Government share of Turkey's external public debt service is relatively large. Including FMS, AID, Ex-Im Bank, Export Credits and PL 480, the U.S. Government share amounted to about 18.5 percent in FY 1983. Since Turkey's external private debt is quite small, the 18.5 percent figure can also be considered a good approximation of the U.S. Government share of Turkey's total external debt service. If no new loans are obtained, the U.S. Government share will grow to about 20 percent in FY 1988, and will drop slowly thereafter. Table 41 provides debt service details.

A majority of the U.S. Government share of Turkey's debt service burden is accounted for by FMS. In FY 1983, FMS accounted for 10.8 percent of total debt service. If no new loans are obtained, this share will grow to 12.7 percent by 1988.

Turkey's debt service ratio amounted to 28 percent in 1983. Assuming that Turkey's GDP will continue to grow at less than 5 percent over the 1984-88 time frame, that external borrowing by the Turkish Government will remain at current levels, and that Turkish exports will remain competitive in world markets, the balance of trade deficit will continue to decrease over the

period 1984-88.

Fiscal Year	All External Debt[1,2]		MILITARY US FMS Loans[7]		ECONOMIC US AID Loans[3]		Ex-Im Bank Loans[4]		EXP Credit Loans		PL 480 Loans[3]	
	Prin	Interest	Prin	Interest	Principal	Interest	Principal	Interest	Prin	Interest	Prin	Interest
1982	1150.0	1100.0	86.068	96.579	--	--	--	--	--	--	--	--
1983	1041.0	894.0	98.068	136.368	53.589	41.934	40.957[5]	24.818[5]	0	0	2.981	2.442
1984	1221.0	828.0	103.214	168.458	59.750	40.288	64.103	25.195			1.758	1.237
1985	1791.0	736.0	128.030	174.918	70.236	38.096	47.606	20.297			1.829	1.177
1986	1612.0	656.0	152.940	165.479	79.091	36.774	36.775	17.191			2.009	1.122
1987	1545.0	569.0	155.428	150.669	81.435	35.569	47.448	14.262			2.312	1.315
1988	1472.0	455.0	143.972	135.791	76.902	32.476	45.421	10.690				
1989	1295.0	363.0	110.011	122.999	67.977	29.538	184.071[6]	17.169[6]				
1990	821.0	299.0	110.085	112.128	64.813	27.165						
1991	649.0	254.0	99.227	101.322	56.697	25.046						

[1]As of December 1982
[2]Public Non-Guaranteed Debt Only; however, private external debt is relatively insignificant.
[3]As of September 30, 1981.
[4]As of March 31, 1983 (Short-Term FICA Excluded)
[5]Calendar years, 1983 is last three quarters only.
[6]For all 1989 entry and all subsequent years.
[7]As of June 15, 1983 for all FMS. FMS principal and interest amounts include actual payments for FY 1982 and the first eight months of FY 1983, and projected payments for the remaining four months of FY 1983 and subsequent years.

Source: World Bank, U.S. Department of Defense, U.S. Treasury, June 1983.

TABLE 41
TURKEY: DEBT SERVICE ON EXISTING LOANS
(In Millions of US Dollars)

[illegible]	78	79	80	81	82	83	84	85	86	87	88	89	90	91
	BILLIONS OF 1968 TURKISH LIRAS													
SS DOMESTIC PROD.	207.200	205.400	204.200	212.780	214.900	220.280	233.490	246.340	254.960	263.880	275.760	288.160	301.130	313.18
CHANGE	2.9	-0.9	-0.6	4.2	1.0	2.5	6.0	5.5	3.5	3.5	4.5	4.5	4.5	4.
	EXTERNAL SECTOR (BILL. U.S. $)													
TAL EXPORTS	2.288	2 261	2.910	4.705	6.117	7.646	9.557	11.468	12.615	14.508	16.684	19.186	22.064	25.37
CHANGE	30.5	-1.2	28.7	61.7	30.0	25.0	25.0	20.0	10.0	15.0	15.0	15.0	15.0	15.
TAL IMPORTS	4.033	4 442	6.961	7.860	9.110	10.066	11.576	13.313	15.017	16.819	19.039	21.552	24.397	27.67
CHANGE	-20.7	10.1	56.7	12.9	15.9	10.5	15.0	15.0	12.8	12.0	13.2	13.2	13.2	12.
ADE BALANCE	-1.745	-2.181	-4.051	-3.155	-2.993	-2.421	-2.019	-1.844	-2.401	-2.311	-2.355	-2.366	-2.332	-2.09
RRENT ACCOUNT BAL.	-1.181	-1.469	-3.503	-2.347	-2.100	-1.600	-1.200	-1.000	-1.600	-1.500	-1.550	-1.580	-1.500	-1.20
	PRICES AND POPULATION													
PULATION-THOU.	43140	44240	45360	46462	47591	48748	49932	51146	52368	53620	54891	56180	57501	5872
CHANGE	2.5	2.5	2.5	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.
CHANGE CPI	45.3	58.7	110.2	36.6	40.0	35.0	25.0	30.0	25.0	15.0	15.0	15.0	15.0	15
CHANGE RATE CU/$:	24.28	31.08	76.04	111.22	165.00	198.00	227.00	284.00	335.00	359.00	384.00	411.00	440.00	47[illegible].0

ase Econometrics, January 1981.

TABLE 42
TURKEY: MAJOR ECONOMIC INDICATORS

THE FORECAST FOR VENEZUELA

Following four consecutive years of stagnant real growth due largely to private capital flight, falling oil revenues, and a growing foreign debt service burden, the Venezuelan economy faced another period of recession in 1983. Following a 0.4 percent decline in GDP in 1982, Venezuela registered a further decline of 2.5 percent in 1983. Renewed inflationary pressures and external liquidity constraints will accompany deteriorating economic activity well into 1984. For 1984-88, expected GDP growth will average only about 2-3 percent per year.

Venezuela's foreign exchange reserves fell by 1.4 billion dollars during the first two months of 1983. On February 20, 1983, the government suspended foreign currency sales and imposed two-tiered exchange controls, which accomplished a 48 percent devaluation of the bolivar with regard to the U.S. dollar. Short-term price controls and import constraints on luxury goods (autos, consumer electronics, etc.) were imposed to reduce inflation and reduce the economy's foreign exchange outflow for the remainder of this year.

Despite high real domestic interest rates, private capital continued to flow out of the country at an alarming rate over the last six months of 1982. This outflow of capital was due largely to speculation about the potential for exchange controls and a devaluation of the bolivar. Under the new exchange system, a

preferential rate of 4.23 bolivars per dollar was set for public-sector export revenues, essential imports, and registered foreign public debt service payments. Private-sector export receipts and other import payments will be converted at a 6 bolivars per dollar exchange rate. A free-market rate of approximately 7.5 to 9 bolivars per dollar prevailed in the initial stages of the new exchange system.

In addition to high private sector capital outflows, the decline in Venezuela's foreign exchange reserves was exacerbated by continued declines in oil export revenues. In 1982, persistent high levels of worldwide oil production, the worldwide recession, and energy conservation efforts by industrialized nations resulted in a 13.7 percent fall in Venezuela's oil export volume and an estimated 7 percent fall in average oil prices, to 27 dollars per barrel.

As burdensome as the reduction in 1983 oil exports have been, Venezuela's liquidity pressures have also been increased by difficulties in rescheduling its short-term external public debt. The government is attempting to reschedule 9.3 billion dollars of short-term external public debt due in 1983 into 2- to 7-year credits, although a general refinancing of the government's total external debt, possible under the auspices of an IMF program, is becoming increasingly likely. Insufficient subscription drawdowns on several large public-sector agency rescheduling

syndications, widely reported interest and principal arrearages (both before and during the suspension of foreign exchange sales) and an inability to extend or roll over maturing long-term debts have thus far blocked the government's efforts to ease the economy's foreign debt service burden, and will create roadblocks to an overall debt rescheduling.

The government's success in rescheduling its external public debt in 1983 will be the key determinant of the new exchange control system's ability to reduce external liquidity pressures and stem continuing declines in foreign exchange reserves. More importantly, a failure to implement an effective debt-scheduling program during 1983-84 will undermine the new exchange rate system and force the government to devalue the bolivar even further, as foreign exchange reserves continue to decline.

Despite the stabilization of benchmark oil prices in 1983-84, Venezuela's economy cannot realistically look forward to a substantial and sustainable recovery beginning in 1984. In particular, inflationary problems are expected to continue as a result of relatively low oil exports, declining foreign exchange reserves, the debt service burden, and a substantial dependence on imports of manufactured products. Forecasts are provided in Tables 43 through 46.

Despite the impact of new import restrictions, the trade surplus will stabilize at a low 3.2 billion dollars in 1983, as falling oil export revenues offset the impact of declining merchandise imports. The current account is expected to show a deficit of 400 million dollars in 1983, thereby precipitating additional loans, and financing requirements of 4.8 billion dollars for the same period.

The U.S. Government portion of the Venezuelan debt service burden is insignifcant.[46] Total U.S. Government assistance loans, including AID and Ex-Im Bank, amounted to only 0.42 percent of the Venezuela debt service burden in 1983. If no new loans are obtained, the U.S. share of the burden will grow to only 0.8 percent in 1985, and will decline thereafter. The U.S. does not currently have FMS, export credit, or PL-480 loan to Venezuela. Details are provided in Table 43.

Clearly, there are three major risks to economic recovery for Venezuela for the period 1984-88: falling foreign exchange reserves, falling world oil prices, and failure to reschedule external debt. The imposition of fixed exchange rates remains a government policy option which will likely be maintained, particularly if world oil prices and production remain at current low levels. Although the risk of an all-out OPEC oil price war is low, a benchmark price of below 25 dollars per barrel would have disastrous impact on the Venezuelan balance of payments. Under

relatively optimistic conditions, the debt service burden for Venezuela will grow from 70.6 percent in 1983, and will decline to 43.9 percent in 1987. In particular, if oil prices drop below 25 dollars per barrel and if the current debt burden cannot be rescheduled, Venezuela faces the strong probability of default.[47]

U.S. Fiscal	All External Debt[1,2]		MILITARY: US FMS Loans[6]		ECONOMIC: US AID Loans[3]		Ex-Im Bank Loans[4]		EXP Credit Loans		PL 480 Loans[3]	
	Prin	Interest	Prin	Interest	Principal	Interest	Principal	Interest	Prin	Interest	Prin	Interest
1982	1271.9	1562.2	--	--	--	--	--	--	--	--	--	--
1983	1738.7	1380.1	0	0	.537	.010	43[5]	0	0	0	0	0
1984	2001.2	1117.1			0	0	86	0				
1985	1674.9	846.4					85					
1986	1597.1	363.7					0					
1987	688.1	165.9										
1988	336.8	96.4										
1989	--	--										
1990	--	--										
1991												

[1]As of December 1981.
[2]Public Debt Only.
[3]As of September 30, 1981.
[4]As of March 31, 1983, (Short-Term FICA Excluded).
[5]Calendar years, 1983 is last three quarters only.
[7]As of June 15, 1983 for all FMS.

Source: World Bank, U.S. Department of Defense, U.S. Treasury, June 1983.

TABLE 43
VENEZUELA: DEBT SERVICE ON EXISTING LOANS
(In Millions of U.S. Dollars)

FISCAL YEAR:	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
AGGREGATE DEMAND										
PRIVATE CONSUMPTION	55136.7	57736.0	60210.6	64207.0	66839.9	66717.8	65210.1	63701.2	63187.7	63000.
GOVERNMENT CONSUMPTION	14680.2	16176.1	16385.6	14615.3	14646.7	13869.4	14347.0	15143.6	15999.3	16998.
GROSS FIXED INVESTMENT	33237.0	26461.0	22698.0	23178.7	23881.3	22139.6	20363.1	20527.6	21192.3	22027.
PRIVATE INVESTMENT	18927.0	15610.0	10437.0	10169.8	9961.7	8486.5	6721.9	6750.1	7139.2	7633.
PUBLIC INVESTMENT	13350.0	10851.0	12261.0	13008.9	13919.5	13641.3	13641.2	13777.6	14053.1	14406.
CHANGE IN STOCKS	874.7	136.0	-3323.3	-7301.4	-11077.0	-10939.0	-10970.4	-9610.5	-1266.5	2360.
EXPORTS OF GOODS AND SERVICES	7121.5	7710.1	10440.6	9544.3	8390.7	9721.7	11511.7	12135.9	11363.9	12606.
IMPORTS OF GOODS AND SERVICES	33635.1	28394.0	27513.7	26636.7	25266.5	23068.0	24467.7	27248.8	29388.0	33600.
AGGREGATE SUPPLY										
OUTPUT:										
AGRICULTURE	4682.0	4886.0	4993.0	4918.1	5007.7	5128.8	5276.8	5426.4	5580.9	5746.
INDUSTRY	26678.0	27450.0	26860.0	27000.5	26942.4	26811.8	27241.2	28131.1	29259.8	30519.
MANUFACTURING + REFINING	12079.0	13418.0	13831.0	14030.8	14264.6	14059.0	14198.2	14514.0	14863.0	15459.
MINING + HYDROCARBONS	5911.0	6526.0	6076.0	5889.2	5452.9	5571.7	5935.1	6310.6	6718.6	6008.
CONSTRUCTION	6115.0	5519.0	4674.0	4567.3	4496.4	4363.0	3918.0	3829.1	3888.6	6033.
UTILITIES	1773.0	1989.0	2299.0	2532.9	2728.5	2937.2	3169.2	3476.6	3801.0	4160.
SERVICES	64097.0	63127.0	42368.0	43080.9	42660.1	41288.3	41227.7	42594.9	43542.1	45151.
TAX ON IMPORTS	1704.0	2398.0	2677.0	2684.3	2796.7	2231.9	2270.6	2491.9	2660.7	2827.
ANNUAL PERCENTAGE CHANGES										
GROSS DOMESTIC PRODUCT	3.0	0.9	-1.2	1.0	-0.4	-2.5	0.7	3.5	3.1	3.
NOMINAL GROSS DOMESTIC PRODUCT	9.7	22.9	22.6	10.3	11.4	11.7	21.2	24.7	13.4	16.
PRIVATE CONSUMPTION	10.3	4.7	4.3	6.8	4.0	-0.2	-2.3	-2.3	-0.9	1.
GOVERNMENT CONSUMPTION	2.0	-3.5	1.5	0.2	1.6	-5.3	3.4	5.5	5.7	6.
GROSS FIXED INVESTMENT	2.7	-18.0	-14.2	2.1	3.0	-7.4	-8.0	0.8	3.3	3.
PRIVATE INVESTMENT	-1.1	-17.5	-33.1	-2.6	-2.0	-14.8	-20.8	0.4	5.0	6.
PUBLIC INVESTMENT	6.6	-18.7	13.0	6.1	7.0	-2.0	0.0	1.0	2.0	2.
EXPORTS OF GOODS AND SERVICES	-0.2	8.3	35.3	-8.5	-12.1	15.9	18.4	5.4	-6.5	11.
IMPORTS OF GOODS AND SERVICES	7.0	-13.0	-3.1	-3.9	-4.4	-12.8	10.9	11.5	7.8	14.
OUTPUT:										
AGRICULTURE	6.3	3.7	2.9	-1.5	1.8	2.4	2.8	2.9	2.8	2.
INDUSTRY	4.2	2.9	-2.1	0.5	-0.2	-0.5	1.6	3.3	4.0	4.
MANUFACTURING + REFINING	6.4	6.2	3.0	1.5	1.7	-1.4	1.0	2.2	2.4	4.
MINING + HYDROCARBONS	-2.7	10.4	-6.9	-3.0	-7.4	2.2	6.5	6.0	6.3	2.
CONSTRUCTION	11.0	-9.7	-15.3	-2.7	-1.1	-5.6	-7.7	-2.4	1.6	3.
UTILITIES	9.0	12.2	15.6	10.2	7.7	7.7	8.6	9.0	9.3	9.
SERVICES	3.3	-2.2	-1.8	1.7	-1.0	-3.2	-0.1	3.3	2.2	3.
TAX ON IMPORTS	-19.2	40.7	11.6	0.3	4.2	-20.2	1.7	9.7	6.8	6.
VENEZUELA-PETROLEUM SECTOR										
THOUSAND BARRELS PER DAY										
CRUDE PETROLEUM PRODUCTION	2167.0	2356.0	2165.0	2107.0	1895.0	1800.0	2000.0	2100.0	2200.0	2200.0

SOURCE: World Bank, U.S. Department of Defense, U.S. Treasury, June 1983.

TABLE 44

VENEZUELA: MAJOR ECONOMIC INDICATORS (1)

(Millions of 1968 Bolivares)

FISCAL YEAR	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
GROSS DOMESTIC PRODUCT	77161.0	77829.0	76906.0	77691.1	77416.3	75488.0	76016.9	78666.1	81063.3	84368.1
OUTPUT: AGRICULTURE	4682.0	4854.0	4993.0	4910.1	5007.7	5128.8	5276.8	5436.4	5580.9	5744.3
OUTPUT: INDUSTRY	26676.0	27450.0	26866.0	27000.5	26962.4	26031.8	27261.2	28131.1	29259.8	30519.8
OUTPUT: SERVICES	44097.0	43127.0	42368.0	41086.9	42668.1	41200.3	41227.7	42694.9	43662.1	45151.6
PRIVATE CONSUMPTION	65136.7	57716.8	60218.6	64207.0	66839.9	66717.2	65210.1	63761.2	63157.9	63858.6
GOVERNMENT CONSUMPTION	14688.2	14174.1	14365.8	14615.3	14666.7	13269.4	14367.8	15143.6	15999.3	16998.3
GROSS FIXED INVESTMENT	32277.0	26461.0	22698.0	23176.7	23881.3	22125.6	20363.1	20527.6	21178.3	22037.8
CRUDE OIL PRODUCTION, THO. BPD	2167.0	2356.2	2167.0	2107.0	1892.6	1900.0	2008.0	2100.0	2200.0	2200.0
REAL PER CAP. DISPOSABLE INCOME (1968 Bs)	5614.3	5915.1	6371.5	5788.6	5688.5	5334.9	4831.4	4571.4	4503.9	4558.8
BALANCE OF PAYMENTS (MILL. US $)										
EXPORTS OF GOODS	9084.8	14164.0	19051.0	19659.8	16132.6	14562.8	13984.4	15928.5	21143.8	23248.8
IMPORTS OF GOODS	11234.0	10004.0	10877.0	12178.0	13897.0	10866.6	11523.5	13268.7	15120.7	16852.2
TRADE BALANCE	-2060.0	4356.0	8396.6	7481.8	2235.7	3738.3	4470.8	5158.1	6026.8	6693.6
CURRENT ACCOUNT BALANCE	-5735.0	350.0	4728.8	3990.7	-1552.9	-437.0	-276.0	-371.4	416.8	829.8
TOTAL EXTERNAL DEBT	14657.3	21348.1	24883.4	26319.7	29073.6	29330.4	25828.4	27369.8	30685.0	31005.8
PREF. EXC RATE, BOL./US $	4.293	4.293	4.293	4.293	4.293	5.146	6.000	6.000	6.000	7.200
-DECEMBER AVERAGE	4.293	4.293	4.293	4.293	4.293	6.000	6.000	6.000	6.000	7.200
FREE MKT. RATE	NA	NA	NA	NA	NA	9.715	13.500	12.000	15.000	18.000
ANNUAL PERCENTAGE CHANGES										
GROSS DOMESTIC PRODUCT	3.0	0.9	-1.2	1.0	-0.4	-2.5	0.7	3.5	3.1	3.9
OUTPUT: AGRICULTURE	6.3	3.7	2.9	-1.5	1.8	2.4	2.8	2.9	2.6	2.9
OUTPUT: INDUSTRY	4.2	2.9	-2.1	[illegible]	-0.2	-3.5	1.6	3.2	4.0	4.3
OUTPUT: SERVICES	3.3	-2.2	-1.8	1.7	-1.0	-3.4	-0.1	3.3	2.3	3.7
PRIVATE CONSUMPTION	10.3	4.7	4.3	6.6	4.0	-0.2	-2.3	-2.2	-0.9	1.1
GOVERNMENT CONSUMPTION	2.6	-3.5	1.5	0.2	1.6	-9.3	3.4	5.8	5.7	6.2
GROSS FIXED INVESTMENT	3.7	-18.0	-14.2	2.1	3.0	-7.4	-8.0	0.8	3.2	3.9
CRUDE OIL PRODUCTION, THO. BPD	-3.3	8.7	-8.0	-2.5	-10.2	0.4	5.3	5.0	4.8	0.0
REAL PER CAP. DISPOSABLE INCOME	2.2	5.4	7.7	-9.2	-1.7	-6.0	-7.9	-5.2	-1.6	1.2
WHOLESALE PRICE INDEX	7.4	9.2	20.1	13.6	5.3	19.7	24.9	15.9	10.3	8.6
-END OF YEAR, 12-MONTH RATE	5.9	15.5	16.9	9.8	7.8	21.2	26.4	13.1	9.4	12.8
CONSUMER PRICE INDEX	7.2	12.3	21.6	16.2	9.9	18.3	26.1	10.4	11.6	9.4
-END OF YEAR, 12-MONTH RATE	7.0	20.5	19.6	11.0	7.7	27.1	22.2	15.0	10.8	11.0
IMPLICIT GDP DEFLATOR	6.4	21.9	24.1	9.2	11.8	14.6	30.3	20.6	10.0	12.4
WAGE RATE INDEX	14.6	12.1	16.9	16.0	13.6	17.7	25.0	15.0	13.6	15.8
EXPORTS OF GOODS	-4.8	55.9	34.8	4.2	-18.8	-9.9	9.9	16.0	14.1	9.9
IMPORTS OF GOODS	10.2	-10.9	8.7	13.8	4.3	-16.2	6.6	15.9	13.6	9.4
PREF. EXC RATE	0.0	0.0	0.0	0.0	0.0	19.9	16.6	0.0	0.0	20.0
-DECEMBER AVERAGE	0.0	0.0	0.0	0.0	0.0	39.8	0.0	0.0	0.0	20.0

Source: Chase Econometrics, March 1983.

TABLE 44 (Cont)

VENEZUELA: MAJOR ECONOMIC INDICATORS (2)

(Millions of 1968 Bolivares)

FISCAL YEAR:	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
CURRENT ACCOUNT:										
EXPORTS OF GOODS	9084.0	14164.0	19051.0	19859.8	16132.6	14542.0	15986.4	18538.7	21157.2	23265.2
FOOD, BEVERAGES, AND TOBACCO	100.0	96.6	79.5	63.3	72.4	82.0	92.9	105.2	116.5	129.0
RAW MATERIALS	118.2	125.3	152.8	396.7	300.7	359.3	638.0	559.7	689.3	856.0
PETROLEUM	8739.9	13633.8	18247.6	19030.6	15289.8	13558.0	14701.0	17104.6	19531.3	21272.7
MANUFACTURED + CAPITAL GOODS	125.9	309.3	571.0	393.4	378.0	440.6	544.1	615.2	620.5	762.1
IMPORTS OF GOODS	11234.0	10004.0	10877.0	12378.0	12897.0	10804.6	11518.9	13346.7	15130.7	16852.2
FOOD, BEVERAGES, + TOBACCO	1088.6	995.4	1193.0	1575.9	1570.6	1219.9	1334.6	1425.0	1677.0	1797.1
RAW MATERIALS/INTERMED. GOODS	1493.1	1731.5	2157.4	2552.8	2397.3	2100.0	2608.5	3500.7	4241.1	4441.0
MANUFACTURED GOODS	2437.1	2624.4	2872.7	3300.7	3737.5	2353.7	2332.6	2576.9	2837.0	3277.2
MACHINERY + TRANSPORT. EQUIP	5814.2	4642.0	4651.7	4945.2	5188.3	5121.9	5231.6	5832.3	6562.1	7860.6
OTHER GOODS	2.8	0.7	2.3	5.4	6.5	7.7	9.1	10.6	12.5	14.6
TRADE BALANCE	-2060.0	4156.0	8398.0	7481.8	3235.7	3738.3	4470.5	5192.1	6026.5	6691.0
NET FACTOR SERVICES	-3520.0	-3622.0	-3691.0	-2431.9	-2190.5	-2310.6	-2492.5	-2804.1	-3154.6	-3560.9
INVESTMENT INCOME, NET	-148.0	-177.0	488.0	-629.3	-2178.5	-1419.6	-1785.3	-2241.6	-1913.5	-1743.7
INTEREST PAID ON DEBT	-877.7	-1751.1	-2047.0	-4157.5	-3566.8	-2708.6	-2740.3	-3141.6	-2678.5	-2481.7
OTHER INVESTMENT INCOME	729.7	1574.1	2535.0	3537.2	1376.3	1289.0	955.0	900.0	765.0	736.0
UNREQUITED TRANSFERS, NET	-407.0	-407.0	-419.0	-429.0	-407.5	-427.9	-478.1	-517.0	-543.7	-570.9
CURRENT ACCOUNT BALANCE	-5733.0	250.0	4728.0	3998.7	-1572.9	-427.0	-278.0	-371.4	414.8	829.6
CAPITAL ACCOUNT:										
ERRORS AND OMISSIONS	1525.0	514.0	-80.0	-1330.0	200.0	150.0	100.0	50.0	50.0	50.0
AMORTIZATION PAYMENTS	753.6	1769.4	3614.7	6967.6	7106.3	7556.9	7337.6	7302.1	7567.4	7722.3
BAL. OF PAYMENTS, SURPLUS/DEF.	-1601.0	1110.0	-7.0	2671.0	1420.0	-3000.0	0.0	500.0	1000.0	1000.0
GROSS ... BORROWING	3085.3	1155.2	-3001.8	6769.7	9859.3	4836.7	7515.6	8203.8	8122.7	7861.7
EXCHANGE RATE, BOL./US $	4.293	4.293	4.293	4.293	4.293	5.146	6.000	6.000	6.000	7.250
INTERNATIONAL RESERVES	6438.0	7740.0	7025.0	6619.0	10039.0	7039.0	7039.0	7539.0	8539.0	9539.0
TOTAL EXTERNAL DEBT	14687.2	21346.1	24403.4	26319.7	29072.6	29550.4	29528.4	30169.8	30861.0	31005.5
DEBT SERVICE RATIO	17.4	24.6	34.0	56.0	66.0	70.6	63.0	56.8	48.5	43.9

...Chase ...s, March 1983.

TABLE 45
VENEZUELA: BALANCE OF PAYMENTS FORECAST (1)
(In Millions U.S. Dollars)

FISCAL YEAR	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
EXPORTS OF GOODS	-6.8	88.9	34.5	4.2	-18.0	-9.9	7.5	16.0	14.1	9.9
FOOD, BEVERAGES, AND TOBACCO	0.8	-3.4	-17.7	-20.3	14.2	11.1	11.3	13.5	10.7	10.7
RAW MATERIALS	-13.6	6.8	33.0	91.1	4.1	10.6	21.9	25.7	28.1	24.3
PETROLEUM	[illegible]	56.8	33.5	4.5	-19.7	-11.3	5.8	15.7	14.8	8.9
MANUFACTURED + CAPITAL GOODS	94.7	155.6	88.5	-31.1	[illegible]	15.3	[illegible]	10.1	9.9	19.4
IMPORTS OF GOODS	15.2	-10.7	6.7	15.4	6.2	-16.2	5.6	18.9	13.4	9.4
FOOD, BEVERAGES, + TOBACCO	6.3	-8.4	19.2	12.1	-2.3	-27.8	[illegible]	6.5	[illegible]	19.8
RAW MATERIALS/INTERMED. GOODS	5.2	16.0	16.6	18.3	-6.1	-12.6	[illegible]	14.7	23.3	6.7
MANUFACTURED GOODS	4.5	[illegible]	9.6	12.9	[illegible]	-27.0	-4.9	12.2	16.3	18.8
MACHINERY + TRANSPORT. EQUIP.	15.3	-20.3	6.3	[illegible]	8	-1.7	[illegible]	11.3	12.6	7.6
OTHER GOODS	-65.3	254.8	-74.3	149.8	20.5	15.8	[illegible]	19.8	[illegible]	19.0
NET FACTOR SERVICES	[illegible]	[illegible]	5.9	-54.1	-16.8	8.8	[illegible]	[illegible]	[illegible]	8.8
INVESTMENT INCOME, NET	[illegible]	19.4	550.8	-291.0	-340.9	93.3	[illegible]	14.5	16.6	2.9
INTEREST PAID ON DEBT	-153.8	-99.5	-60.3	-41.1	12.7	23.6	[illegible]	-26.6	56.7	[illegible]
OTHER INVESTMENT INCOME	[illegible]	118.7	61.5	39.3	-61.1	-5.2	-25.9	-9.6	-18.0	-9.6
UNREQUITED TRANSFERS, NET	[illegible]	8.8	-7.9	2.3	9.9	-6.0	-13.6	-16.8	-8.0	-8.9
ERRORS AND OMISSIONS	-32.2	[illegible]	-115.6	-1361.8	571.0	-85.3	-13.5	-68.9	0.0	0.0
AMORTIZATION PAYMENTS	56.2	568.9	103.2	93.8	3.0	6.4	-3.9	6.6	3.0	5.6
LOANS AND FINANCE REQUIREMENTS	133.5	-43.2	-171.3	119.7	41.6	-40.9	85.4	9.2	-1.0	-3.6
EXCHANGE RATE, BOL./US	0.0	0.0	0.0	0.0	[illegible]	59.9	16.6	0.0	0.0	20.6
INTERNATIONAL RESERVES	-31.0	10.3	-9.8	33.7	[illegible]	-29.9	0.3	7.1	13.3	11.7
TOTAL EXTERNAL DEBT	81.2	48.6	18.6	5.0	[illegible]	3.0	6.6	2.6	1.8	0.4
TRADE VOLUME										
EXPORTS OF GOODS	-0.5	7.7	-9.3	[illegible]	-9.7	2.0	7.5	7.0	6.0	3.7
FOOD, BEVERAGES, + TOBACCO	0.8	14.5	-39.6	[illegible]	3.8	3.3	3.0	3.9	3.6	3.6
RAW MATERIALS	4.5	3.9	10.6	-16.0	[illegible]	15.0	13.0	15.0	15.0	18.6
PETROLEUM	-1.3	7.9	-11.9	-7.7	[illegible]	6.8	8.4	5.3	6.8	-0.8
MANUFACTURED + CAPITAL GOODS	93.4	143.8	41.7	-40.1	[illegible]	8.5	13.5	3.8	-6.6	10.7
IMPORTS OF GOODS	-1.2	-0.8	13.3	-11.6	4.0	-19.0	3.7	7.8	3.4	4.4
FOOD, BEVERAGES, + TOBACCO	8.6	-16.6	16.6	23.8	13.9	[illegible]	1.8	0.7	-4.0	13.1
RAW MATERIALS/INTERMED. GOODS	-0.8	33.7	-18.6	6.3	-7.6	-34.9	13.9	31.7	11.8	-3.3
MANUFACTURED GOODS	-6.3	-10.3	8.1	-0.6	13.1	[illegible]	-4.5	3.1	1.0	7.3
MACHINERY + TRANSPORT. EQUIP.	7.5	-29.6	-7.3	-9.9	[illegible]	[illegible]	-3.1	3.3	6.7	1.3
OTHER GOODS	-28.6	240.0	-84.3	114.8	16.6	[illegible]	16.0	10.0	10.0	10.0

NOTE: DEBT SERVICE RATIO = DEBT SERVICE/EXPORTS OF GOODS.

Source: Chase Econometrics, March 1983

TABLE 45 (Cont)
VENEZUELA: BALANCE OF PAYMENTS FORECAST (2)
(Millions of US Dollars)

THE FORECAST FOR ZIMBABWE

During the sixties and seventies, Zimbabwe's economic performance was shaped by the country's political turmoil and subsequent civil war. In 1965, this former British colony declared unilateral independence, a move that was followed by a civil war between whites and certain native black groups over social reforms and voting rights. In 1979, the British negotiated a cease-fire between the white-dominated government and the black rebels. Robert Mugabe, a former rebel leader, was elected president, and on April 18, 1980, Zimbabwe, formerly Rhodesia, officially became independent from British rule.

Zimbabwe's economic activity gradually declined during the decade of the seventies. During the period 1970-74, the former colony's economy performed very well, with real GDP growth averaging 8.4 percent annually. However, a real GDP declined an average of 2.9 percent per year during the period 1975-79, as the civil war and international sanctions began to exert a negative impact. Although government expenditure for defense rose sharply during this period, non-defense spending dropped, and monetary controls were tightened. Agricultural production dropped as a result of the war and a concurrent severe drought in 1978-79. Inflationary pressure was strong during the seventies due to government deficits, which amounted to 14 percent of GDP by 1979. Price controls kept the actual average annual inflation to about 8.8 percent (CPI) over the decade. Also, import restrictions

prevented a substantial deterioration in the balance of payments.

After cessation of hostilities in 1979, international sanctions were lifted and the economy began to recover from the war. GDP grew 11.7 percent in 1980. Private consumption grew 15 percent, and government spending rose 15.3 percent. Manufacturing growth increased substantially in response to consumer and government spending and greater volumes of raw material and intermediate good import. High gold and silver prices resulted in a strong performance by the mining sector. However, inflation rose to 11.3 percent in 1980 compared to 10.8 percent in 1979. The government budget deficit dropped to 9 percent of GDP from the 14 percent level in 1979.

In 1981, real GDP growth slowed to 7.5 percent, down from 11.7 percent in 1980. Weakness in mining exports, transportation difficulties, and shortages of foreign exchange reserves were the primary causes of the slowdown. However, agriculture production and personal and government consumption expenditures showed strong increases. Inflation accelerated to 16 percent, and the budget deficit was massive. The current account deficit widened to 588 million dollars, up from 236 million in 1980. Capital inflows weakened in 1981, reflecting the uncertain political stability and hesitancy on the part of foreign investors.

In 1982, GDP declined slightly, with weakness prevalent in

mining, manufacturing, and agriculture. Inflation increased to 17 percent. Stagnant exports, sluggish investment, and recent austerity measures by the government resulted in a continued period of recession in early 1983.

After three years of acknowledged independence during which the budget almost doubled, the Zimbabwe Government publicized a restrained budget of 2.78 billion dollars for 1983-84, 18 percent lower than the 1982-83 budget in real terms. Finance Minister Bernard Chidzero, outlining the nation's fourth budget against a background of economic stagnation and a severe drought, said that "his standstill prescription" would be unpopular with the black majority that elected Prime Minister Mugabe in 1980. Still, the spending cuts fell short of what had been expected in some Western diplomatic circles.[48]

Government belt-tightening measures included a 50 percent cut in food subsidies. Sales taxes, covering both the wholesale and retail levels, were increased from 16 to 18 percent and from 19 to 23 percent, respectively. The minimum wage remained at the January 1982 level.

Mr. Chidzero proposed a new minimum tax of [illegible] percent on incomes of more than 99 dollars per month, which means more blacks will have to pay income taxes. Currently, most taxpayers are white in higher brackets. The broadened tax base is expected

to increase revenue by 8.9 million dollars.

Progressive personal income tax rates rose to 63 percent from 60 percent at the top level, and business income will be taxed at a rate of 54 percent, up from 51.5 percent. The Minister acknowledged that the tax increases aren't likely to encourage investment in Zimbabwe, which so far hasn't attracted much foreign capital investment. He said drastic measures were needed, however, because after growing rapidly in the first two years of independence, Zimbabwe's economy registered a "very poor performance" last year, expanding only 1 percent. He said the country's mining sector was further depressed by the international recession and agriculture, the other mainstay of the economy, was devastated by the drought. Mr. Chidzero didn't mention any plan to reduce the size of the bureaucracy, as the IMF recommended earlier this year, but there were rumors that a cabinet shuffle was imminent. Under the proposed budget, only the defense, education and culture and health ministries will get more money this year than last. All other allocations are to be reduced or remain the same.[49]

For the period 1984-88, the Government of Zimbabwe faces a number of difficult economic issues that are essential to the country's ability to attain a stable pattern of sustainable growth. These include the problem of land redistribution, which was a major issue of the civil war, job creation to account for

the 2.9 percent annual growth of the labor force, increasing investment in manufacturing, and improving the transportation and energy infrastructure. Land reform must balance the desire of black Africans for more land against the need to maintain agricultural exports from larger commercial farms owned by whites. The future growth of investment in Zimbabwe will depend to a large degree on the country's development policies. Although President Mugabe recognizes the need for Western skills and capital, his ideological orientation is socialist-Marxist. Uncertainty presently exists over the country's official attitude toward foreign investment, repatriation of profits, and the degree of official commitment to a mixed economy. This political risk is constraining the growth of both foreign and domestic investment, both of which are necessary to modernize the capital resources of the economy. The country also faces problems in transport and energy. Railroads are essential for the transportation of exports, especially agricultural goods. A shortage of skilled workers, deteriorating equipment after years of sanctions, and scarce financial resources are the major problems plaguing the railroad. The country is very dependent on oil imports, with oil currently comprising 10 to 30 percent of total imports, with limited prospect for future reductions. However, the recent decline in world oil prices should alleviate the cost of oil imports somewhat over the 1983-84 period.

During the period 1984-91, the real growth rate of the economy is expected to be sluggish. The financial imbalances of the country, reflected in both balance of payments and fiscal deficits, are also expected to result in slower growth of economic activity as the government continues to rely on high interest rates to control the growth of credit.

The expected sluggish growth of the economy will be widely diffused throughout productive sectors. In the manufacturing sector, shortages of skilled labor and foreign exchange for imports of necessary inputs will adversely affect production. Future growth prospects for the manufacturing sector will depend upon increased investment, as much of the sector's equipment and machinery is worn out and in need of replacement, but uncertainty over the future course of government policies is expected to lead to continued hesitancy of private investment, particularly from foreign sources.

Shortages of skilled workers and difficulties in transporting exports will exert a negative influence on growth of the mining sector. The reluctance of private owners to expand investment due to uncertainty over the government's future role also clouds the outlook for production. At present, government involvement in production and marketing is expected to increase, but the degree of participation is likely to be limited by the desire to encourage foreign investment.

Agriculture will continue to be very important to the economy, especially in its contribution to exports. However, the adjustment of this sector to land reform efforts may prove difficult as Zimbabwe attempts to reconcile the need to retain the productive capacity of white commercial farms for exports with the need to satisfy the pent-up black African desire for land.

The long-term outlook for the balance of trade is fairly positive. Although some weakness in export volume is anticipated as productive sectors continue to adapt to new circumstances, the expected recovery in commodity prices over 1984-85 and improvement in price competitiveness will result in recovery of export revenues. In addition, import growth will continue to be limited by foreign exchange availability as well as by the impact of the devaluation. Thus, trade deficits and current account deficits will remain small and manageable.

Foreign aid levels will remain fairly high, no significant increase in foreign investment is anticipated, reflecting the growing perception by investors of political risk. In addition, foreign borrowing is not expected to increase to any significant degree, primarily as a result of heightened fears of political instability.

The U.S. Government share of Zimbabwe's external public debt service is small, amounting to less than 1 percent in U.S. FY

1983. If no new foreign loans are obtained, the U.S. share will rise to 9 percent in 1989. All U.S. Government loans to Zimbabwe are accounted for by the Ex-Im Bank; there are no FMS or other U.S. loans.

The Zimbabwe public debt service ratio is also small, amounting to less than 6 percent in 1983. However, data on private debt are not available. If political stability is achieved and if expropriation of commercial farms is avoided, Zimbabwe can expect a slow GDP growth rate of 3 to 5 percent during the period 1984-91. Also the trade surplus can be expected to grow steadily to about 815 million dollars in 1991. Foreign investment will also increase. If political stability is not achieved, and if socialist policies with regard to industry and agriculture are followed, Zimbabwe's economic future would appear to be grim indeed. Tables 46 and 47 provide the more optimistic forecast.[50]

TABLE 47
ZIMBABWE: DEBT SERVICE ON EXISTING LOANS
(In Millions of US Dollars)

	All External Debt[1,2]		MILITARY US FMS Loans[7]		ECONOMIC US AID Loans[3]		EX-IM Bank Loans[4]		EXP Credit Loans		PL-480 Loans[3]	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Int
82	51.3	94.5					-	-	-	-	-	
83	337.8	106.9					.711[5]	2.068[5]				
84	153.1	107.6					1.320	3.533				
85	169.5	102.4					3.518	3.451				
86	188.7	90.2					7.546	3.048				
87	193.3	81.1					7.546	2.430				
88	185.0	64.5					7.229	1.816				
89	135.4	50.4					14.852[6]	1.877[6]				
90	128.7	40.2										
91	105.7	31.6										

[1] As of December 1982
[2] Public Debt Only
[3] As of September 30, 1982
[4] As of March 31, 1983
Short-Term [illegible] excluded

[5] Calendar years. 1983 is last threeе quarters only.
[6] For all 1989 entry and all subsequent years
[7] As of June 15, 1983 for all FMS.

Sources: World Bank, U.S. Department of Defense, U.S. Treasury, June 1983.

	78	79	80	81	82	83	84
BILLIONS OF 1965 ZIMBABWE DOLLARS							
GROSS DOMESTIC PROD.	1.186	1.187	1.326	1.426	1.447	1.462	1.501
% CHANGE	[illegible]	0.1	11.7	7.5	1.5	1.0	2.7
EXTERNAL SECTOR (BILL. U.S. $)							
TOTAL EXPORTS	0.906	1.039	1.352	1.376	1.328	1.528	1.845
% CHANGE	2.7	14.7	30.1	1.8	-3.5	15.1	20.7
TOTAL IMPORTS	0.598	0.815	1.198	1.285	1.233	1.416	1.695
% CHANGE	-9.3	36.3	47.0	7.2	-4.0	14.8	19.7
TRADE BALANCE	0.308	0.224	0.154	0.091	0.095	0.113	0.150
CURRENT ACCOUNT BAL.	[illegible]	-0.107	-0.236	-0.588	-0.305	-0.287	-0.250
PRICES AND POPULATION							
POPULATION-THOU.	6860	7100	7360	7625	7900	8164	847[illegible]
% CHANGE	3.6	3.5	3.7	3.6	3.6	3.6	3.6
% CHANGE CPI	6.6	10.8	11.3	16.0	20.0	23.1	25.6
EXCHANGE RATE (NCU/$)	0.68	0.68	0.64	0.75	0.92	1.14	1.4[illegible]

	85	86	87	88	89	90	91
BILLIONS OF 1965 ZIMBABWE DOLLARS							
GROSS DOMESTIC PROD.	1.551	1.610	1.652	1.708	1.774	1.847	1.927
% CHANGE	3.3	3.8	2.6	3.4	3.9	4.1	4.3
EXTERNAL SECTOR (BILL. U.S. $)							
TOTAL EXPORTS	2.376	3.170	3.835	4.836	6.224	8.185	10.935
% CHANGE	28.8	33.4	21.0	26.1	28.7	31.5	33.6
TOTAL IMPORTS	2.193	2.954	3.563	4.457	5.700	7.530	10.120
% CHANGE	29.4	34.7	20.6	25.1	27.9	32.1	34.4
TRADE BALANCE	0.183	0.216	0.273	0.379	0.524	0.655	0.815
CURRENT ACCOUNT BAL.	-0.217	-0.184	-0.127	-0.021	0.124	0.255	0.415
PRICES AND POPULATION							
POPULATION-THOU	8784	9100	9428	9767	10119	10183	1086[illegible]
% CHANGE	3.6	3.6	3.6	3.6	3.6	3.6	3.6
% CHANGE CPI	28.7	30.4	28.7	27.1	26.8	25.1	24.2
EXCHANGE RATE (NCU/$)	1.73	2.16	2.65	3.24	3.92	4.70	5.59

Source: Chase Econometrics International Forecasting Service

TABLE 46
ZIMBABWE: ECONOMIC INDICATORS

FOOTNOTES

[1]Many economic loans are concessional because they are provided at interest rates that are substantially less than current U.S. Government cost-of-money rates. U.S. Treasury Department officials have determined that on the average, U.S. economic assistance loans are provided at 3.5 percent annual interest with a repayment period of 8 years. Using a weighted average cost-of-money interest rate of 10 percent (source: U.S. Treasury), this yields an average grant element for economic assistance loans of 66.6 percent. Thus, if we subtract the grant element from economic assistance loans and add this payment to the grant category, we obtain 0.484 billion dollars in economic assistance loans and 7.645 billion in economic assistance grants. Historically, military assistance loans have not been concessional.

[2]The U.S. Government cost-of-money interest rate is based on weighted average rates paid by the U.S. Government to obtain debt financing plus a small (.125 percent) service charge. This cost-of-money interest rate varies over time with the market interest rates for U.S. Government bonds. Thus, U.S. cost-of-money loans for foreign Military Sales (FMS) vary; some loans were made at a rate as high as 18.55 percent (Malaysia, 1980) and as low as 3.00 percent (Israel, 1974). Also, if a particular country is given U.S. credits under FMS, it may withdraw monies from its account at different points in time over a period of several years. The country would be charged the prevailing cost-of-money interest rate for each withdrawal.

[3]The debt service data include public and private non-guaranteed debt plus FMS-guaranteed debt for Korea, Thailand, Oman, and Pakistan. The data for the remaining 15 countries include public debt only (Egypt, Philippines, Venezuela, Indonesia, El Salvador, Costa Rica, Honduras, Israel, Liberia, Morocco, Somalia, Sudan, Tunisia, Turkey and Zimbabwe).

[4]See a report by the U.S. General Accounting Office, Donor Approaches to Development Assistance: Implications for the United States, GAO/ID-83-23, May 4, 1983 pp. 74-98. Also see a second GAO report, Political and Economic Factors Influencing Economic Support Fund Programs, GAO/ID-83-43, April 18, 1983 for criteria for using Economic Support Funds.

[5]See The World of the Multinational Corporation, a documentary by California Newsreels, 1978. Many examples of prominent individuals moving between positions in the multinationals and in government can be cited.

[6] Foreign Assistance Act of 1974, Report of the Committee on Foreign Relations U.S. Senate, 93rd Congress, 2nd Session, Government Printing Office, November 29, 1974, p. 81.

[7] Farthing, Fred G., Jr., op. cit., pp. 9-11. Also see Stern, Thomas, "Department Discussed Policy on the Sale of U.S. Military Articles and Services," Department of State Bulletin, No. 73, July 21, 1975, p. 100.

[8] Farthing, Fred G., Jr., op. cit., p. 8.

[9] Gansler, The Defense Industry, Cambridge, MA, M.I.T. Press, 1981, p. 217.

[10] Brown, Harold, Department of Defense Annual Report, FY 1982, p. 221.

[11] Brown, Harold, op. cit., pp. 221-225.

[12] Fox, J. Ronald, Arming America, Graduate School of Business Administration, Harvard University, Boston, 1974, pp. 287-330.

[13] Winn, Lynton T. and Dunlap, James L., op. cit., pp. 1-73.

[14] Gansler, op. cit. pp. 204-205. Also see Brown, Harold, Department of Defense Annual Reports, FY 1980, 1981 and 1982, and the Congressional Budget Office Five-Year Budget Projections and Alternative Budget Strategies for Fiscal Years 1980-1984, U.S. Government Printing Office, Washington, D.C., pp. 28-34. Also, direct commercial sales by U.S. firms to foreign nations have increased from 0.547 billion dollars in FY 1975 to 2.089 billion dollars in FY 1981. Licenses granted for future commercial contracts indicate that these sales may increase dramatically in the near future. (Source: Munitions Control Board)

[15] In the past, FMS loans have been made at interest rates which reflect the cost of money to the U.S. Treasury at the time the loaned funds were actually drawn upon. For individual loans, the interest rate remains constant over the pay-back period.

[16] Note that because the payments for the FMS loan specify an increase of W2-W1 in defense spending, and because we have assumed that the same proportion of defense and non-defense goods, the budget line must shift the following amount to accommodate both of these conditions: $[(W2-W1)^2 + (Q2-Q1)^2]$. Shifts of less than this amount will result in a suboptimal condition. If neither loss nor gain of non-defense goods is assumed as a minimum acceptable position, then the growth of country A must be

at least as great as the increase in defense payments. In a number of countries (Egypt, Turkey, the Sudan, for example), even this condition has not been achieved.

[17] Farthing, Fred G., op. cit., p. 18. Also see Schandler, Herbert Y., "Summary of U.S. Arms Transfer and Security Assistance Programs," Congressional Research Services, Library of Congress, September 3, 1975.

[18] See National Advisory Council Annual Report, International Finance, FY 1981, U.S. Government Printing Office, Washington, D.C. Also see data on LDC debt collected by the World Bank, 1971-82.

[19] International Finance, op. cit. Also, see Chase Econometrics Far East Service Forecasts, 1982.

[20] Israel and Egypt are obvious exceptions.

[21] The World Bank uses four categories based on per capita income at 1979 U.S. dollars: (1) $345 or less, (2) $680 or less, (3) $1404 or less, and (4) $1405 or more.

[22] See Chase Econometrics Data Base Manual Far East Forecast, Chase Econometrics Interactive Data Corporation, 1983. Also, additional modeling information was obtained from Chase Econometrics, Wharton, and Department of Defense Analysts.

[23] *The primary sources for the Costa Rican forecast were the* World Bank and certain internal Department of Defense publications. Data are current as of June 1983.

[24] The 6.0 percent growth rate is based upon data acquired by Wharton in the fourth quarter of 1982. Experts in the DOD disagree, and have indicated a lower, even slightly negative, growth rate for 1981-82. However, unclassified documents were not available to confirm a negative growth rate.

[25] A striking feature of the Egyptian [illegible] 1982-83 budget was the steep rise in military expenditures. Military spending was revised upwards from a programmed [illegible] billion pounds to an actual 1.57 billion pounds [illegible] spending is expected to be [illegible] budget, for an overall rise of 25 percent from programmed 198[illegible]-82 expenditures.

[26] The primary sources for the Egyptian forecasts were the World Bank, Wharton Econometrics Forecasts, Middle East Economic Outlook, April 1983, and certain Department of Defense internal reports, 1982-83.

[27] The primary sources for the El Salvadorian forecast were the World Bank, U.S. Embassy reports (1982-83), and certain Department of Defense internal reports, 1982-83.

[28] Exact data for the 1982 and 1983 deficits are unavailable. However, deficits above $300 million were expected for both years.

[29] Source: Agency for International Development, U.S. Overseas Loans and Grants, July 1, 1965-September 30, 1982, Cong-R-0105, September 1982, p. 51.

[30] The primary sources for the Honduras forecast were the World Bank, the U.S. Embassy in Honduras, and certain internal Department of Defense publications. Data are as of June 1983.

[31] Indonesian private debt service data are not available from the World Bank or from Chase Econometrics. However, subjective information indicated that substantial private loans were obtained largely from U.S. and Dutch banks. The percentages given above were calculated from Chase Econometrics projected loan data based on a calendar year. These data are obtained from Table 14.

[32] The primary sources for the Indonesian forecast were Chase Econometrics Forecasts, January 1983, the World Bank, and certain Department of Defense internal reports, 1982-83.

[33] The primary sources for the Israeli forecast were the World Bank and certain Department of Defense internal reports, 1982-83.

[34] The primary sources of this analysis include: The International Bank for Reconstruction and Development, The Economic Development of Morocco, 1966; Wharton Econometrics Forecasts, Middle East Economic Outlook, Wharton, April 1983, and certain Department of Defense internal reports, 1982-83, and World Bank data sources.

[35]The primary sources for the Omani forecast were: U.S. Department of Commerce, Foreign Economic Trends and Their Implications for the United States, U.S. Government Printing Office, January 1983; Wharton Econometric Forecasting Associates, Middle East Economic Outlook: Oman, Wharton, April 1983, and certain Department of Defense internal publications, January-June 1983.

[36]The primary sources for the Pakistani forecast are: The U.S. Embassy, Islamabad, Foreign Economic Trends and Their Implications for the United States: Pakistan, FET 83-D18, March 1983, and certain Department of Defense internal publications.

[37]Data on Philippine private debt service are not available from the World Bank. However, Chase Econometrics has provided estimates of public and private debt service for the period 1983-88. Chase Econometrics assumed that both public and private debt would grow at a rate based on straight-line projection from the data over the period 1971-72. For our projections, we assumed that all new debt obtained during the period 1983-88 will be from non-U.S. Government sources.

[38]The primary sources for the Somalia forecasts were the World Bank and certain Department of Defense internal reports, 1982-83.

[39]In 1983, estimates of U.S. debt service as a percent of the Korean total vary from 11 to 12 percent due to variations in estimates of total Korean debt service. For subsequent years, the ranges of estimates are as follows: 1984, 13.83-15.13; 1985, 13.79-15.30 percent; 1986, 13.46-16.93 percent; 1987, 12.21-19.84 percent; 1988, 9.13-19.13 percent.

[40]In 1983, estimates of FMS debt service as a percent of the Korean total vary from 5.60 to 6.33 percent, due to variations in estimates of total Korean debt service. For subsequent year, the ranges of estimates are as follows: 1984, 4.98-5.44 percent; 1985, 4.06-5.51 percent; 1986, 3.31-4.16 percent; 1987, 1.48-4.03 percent; and for 1988, [illegible] percent.

[41]The primary source for the Sudanese forecast includes the World Bank and certain internal Department of Defense reports, 1982-83.

[42]Ranges for forecasted total foreign debt service are not available for Thailand. For 1987 and 1988, the total foreign debt amount includes only public debt service; it does not include private debt.

[43]The primary sources for the Thai forecast include Chase Econometrics Forecasts, January 1983, the World Bank, and certain Department of Defense internal reports, 1982-83.

[44]The primary sources for the Tunisian forecast include: IMF documents, March, 1983; certain Department of Defense internal reports, 1982-83; and World Bank data sources.

[45]The primary sources for the Turkish forecast include: Chase Econometrics International Forecasts, January 1983; certain Department of Defense internal reports, 1982-83; and World Bank.

[46]Venezuela private debt service data are not available from the World Bank or from Chase Econometrics. However, subjective information indicates that private loans, primarily from major U.S. banks, are substantial.

[47]The primary sources for this analysis include Chase Econometrics International Forecasts, January 1983; certain Department of Defense internal reports, 1982-83; and World Bank data sources.

[48]Steven Taylor, "Zimbabwe's Fourth Budget Cuts Spending and Extends Income Tax to More Blacks," Wall Street Journal, July 29, 1983.

[49]Taylor, Wall Street Journal, July 29, 1983, op. cit.

[50]The primary sources for the Zimbabwe forecast include: Chase Econometrics International Forecasts, January 1983, the World Bank, and certain Department of Defense internal reports.

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